Supreme Court, U.S.
FILED

961698 APR 17 1997

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No.

IN THE
Supreme Court of the United States
October Term, 1996

INSTITUT PASTEUR AND PASTEUR SANOFI DIAGNOSTICS,

Petitioners,

v.

CAMBRIDGE BIOTECH CORPORATION,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIRST CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED FOR REVIEW

I. Notwithstanding the conflicting decisions among various Circuit Courts of Appeals, does § 365(c)(1)(A) of the Bankruptcy Code prohibit a debtor in possession from assuming executory contracts, (here non-exclusive patent licenses which are nonassignable under federal law), because, as the statute provides, assumption is prohibited "if applicable law excuses a party, other than the debtor, to such [licenses] . . . from accepting performance from or rendering performance to an entity other than the debtor or the debtor in possession, whether or not such [licenses] . . . prohibit[ ] or restrict[ ] assignment of rights or delegation of duties. . . .?"

II. In light of the numerous conflicting opinions among the various Circuit Courts of Appeals regarding the proper interpretation of 11 U.S.C. § 365(c)(1)(A), did the Court of Appeals for the First Circuit err in its decision below by reading a "benefit-of-the-bargain" test into that statute, under which the debtor in possession may assume executory contracts unless the nondebtor party proves that it will not receive the full benefit of its bargain after assumption by the debtor in possession?

III. Whether the Court of Appeals for the First Circuit erred in placing the burden of proof on the nondebtor, rather than on the debtor, on issues of whether the debtor in possession is prohibited from assuming nonassignable executory contracts under 11 U.S.C. § 365?

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STATEMENT PURSUANT TO SUPREME COURT RULE 29.6

1. *Appellant/Petitioner Institut Pasteur ("IP")*: There is no parent company of IP. The subsidiaries of IP are Institut Pasteur de Bangui, Institut Pasteur of Dakar, Institut Pasteur de Madagascar, Institut Pasteur of French Guyana, Institut Pasteur of Guadeloupe, Institut Pasteur of Cambodia, Institut Pasteur of New Caledonia and Appellant/Petitioner Pasteur Sanofi Diagnostics.

2. *Appellant/Petitioner Pasteur Sanofi Diagnostics ("PSD"):* The majority shareholder of PSD is Sanofi, S.A. The nonwholly owned subsidiaries of PSD are Adil Instruments, S.A., Blood Virus Diagnostics, Pasteur Sanofi Diagnostics, L., Pasteur Sanofi Diagnostics, S.A., Sanofi Diagnostics, Sanofi Pacific Diagnostics, Ltd., Sanofi Fujirebio.

CITATION OF THE REPORTS OF OPINIONS AND ORDERS ENTERED IN THIS CASE BY THE COURTS

The First Circuit Court of Appeals opinion is *Institut Pasteur* v. *Cambridge Biotech Corp.* (*In re Cambridge Biotech* Corp.), 104 F.3d 489 (1st Cir. 1997). The relevant District Court Memorandum and Order, *Institut Pasteur* v. *Cambridge Biotech Corp.*, (*In re Cambridge Biotech Corp.*), Civ. No. 96-40176-NMG, (D. Mass. Sept. 27, 1996) is unpublished and appears in the appendix submitted with this petition. The relevant Bankruptcy Court order, *In re Cambridge Biotech Corp.*, No. 94-43054-JFQ, (Bankr. D. Mass. July 18, 1996), is unpublished and also appears in the appendix.

STATEMENT OF BASIS FOR JURISDICTION

January 17, 1997 is the date the judgment sought to be reviewed was entered. There are no orders respecting rehearing or an extension of time to file the petition for a writ of certiorari. This Court has jurisdiction to review on a writ of certiorari the judgment in question pursuant to 28 U.S.C. § 1254(1). Supreme Court Rules 29.4(b) and (c) are inapplicable.

STATUTES INVOLVED IN THIS CASE

11 U.S.C. §§ 365, 1107
28 U.S.C. §§158(d), 1254(1)
35 U.S.C. §261

STATEMENT OF THE CASE

Cambridge Biotech Corporation ("CBC") and Petitioner PSD are parties to two nonexclusive cross license agreements ("Licenses") related to patented technology useful in the detection of the Human Immunodeficiency Virus Type 2 ("HIV2") that causes Acquired Immune Deficiency Syndrome ("AIDS")[1]. CBC filed a voluntary petition under chapter 11 of the United States Bankruptcy Code, 11 U.S.C. §§101-1330, as amended. In July, 1996, the United States Bankruptcy Court

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[1] Petitioner IP is the owner of the patents at issue here. IP has granted PSD an exclusive license to practice the patented technology in certain geographic areas only. PSD subsequently entered into the Licenses with CBC.

for the District of Massachusetts confirmed CBC's plan of reorganization (the "Plan").

The Plan purports to permit CBC to assume the Licenses under 11 U.S.C. § 365(a),[2] and to transfer its rights under the Licenses to bioMérieux Vitek, Inc. (the "Buyer") under the guise of a sale of all of CBC's stock to the Buyer. Specifically, CBC sought to sell its so-called "Retroviral Business" (*i.e.*, its diagnostic business) to the Buyer under the Plan. The technology that is the subject of the Licenses was contemplated to be transferred as part of the sale of the Retroviral Business. However, as the Licenses state, and as 145 years of federal jurisprudence has held without exception,[3] nonexclusive patent licenses cannot be assigned without the consent of the licensor, even where as here the licensee is a debtor in a bankruptcy case. *See, In re CFLC, Inc.*, 174 B.R. 119 (N.D. Cal. 1994), *aff'd sub. nom., Everex Systems, Inc.* v. *Cadtrak Corporation* (*In re CFLC, Inc.*), 89 F.3d 673 (9th Cir. 1996) ("*CFLC I*"). Here PSD did not and does not consent to the assignment of the Licenses. Thus CBC confronted a dilemma, since it sought to transfer the Licenses as part of the sale of the Retroviral Business to the Buyer.

Solely to evade the long-standing prohibition against assignment of nonexclusive patent licenses such as the Licenses, CBC's Plan contorts CBC's corporate structure to

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2 11 U.S.C. § 365(a) permits a bankruptcy trustee to assume executory contracts under certain circumstances. CBC, a debtor in possession, nevertheless shares the same power to assume executory contracts. 11 U.S.C. § 1107 confers the powers of a trustee with respect to executory contracts under § 365(c) on debtors in possession.

3 See note 5, *infra*.

effect an indirect transfer of the Licenses.[4] According to CBC's Plan, all of CBC's remaining operations other than the Retroviral Business were spun off into a newly formed corporation named Aquila Biopharmaceuticals, Inc. ("Aquila"). Shorn of everything except the Retroviral Business, CBC issued new stock in itself to Aquila as part of its Plan, and Aquila sold that stock to the Buyer. Thus the Licenses were transferred to the Buyer in what amounts to an actual assignment under the guise of a stock sale, even though the Licenses cannot be assigned outright.

CBC concedes the Plan effects an assumption of the Licenses, but claims the stock sale to the Buyer is not an assignment. Petitioners assert that 11 U.S.C. § 365(c)(1)(A) prohibits the assumption of the Licenses, so even if the transaction involved assumption (but not assignment) of the Licenses, the Plan should not have been confirmed. Petitioners appealed the order confirming the Plan, seeking only the limited relief of vacating, modifying or reversing that order to the extent it permits CBC to assume the Licenses.

The United States Court of Appeals for the First Circuit affirmed the affirmance of the United States District Court for the District of Massachusetts of the order confirming the Plan. The First Circuit exercised jurisdiction pursuant to 28 U.S.C. § 158(d). The First Circuit believed it was bound by its earlier opinion in *Summit Investment and Development Corp.* v. *LeRoux* (*In re LeRoux*), 69 F.3d 608 (1st Cir. 1995) (hereinafter "*LeRoux*") to conclude that notwithstanding the

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[4] Petitioners repeatedly have argued that CBC and the Buyer intentionally structured this transaction so that superficially it appears to be a complicated stock sale rather than an outright assignment and asset sale, to evade the prohibition against assignment of the Licenses. CBC and the Buyer have never denied this, and have never provided an alternative reason for this structure.

language of § 365(c), applicable law is irrelevant to a determination of whether CBC could assume the Licenses. The First Circuit did not cite to, or explain, why it relied upon *LeRoux* rather than its earlier opinion in *In re Pioneer Ford Sales, Inc.*, 729 F.2d 27 (1st Cir. 1984) (Breyer, J.). In *Pioneer Ford Sales*, Justice Breyer, then sitting on the First Circuit, wrote that § 365(c) prohibits assumption where applicable law renders the contract nonassignable. In this case, the First Circuit ruled, consistently with *LeRoux* and inconsistently with *Pioneer Ford Sales*, that CBC could assume the Licenses, notwithstanding applicable nonbankruptcy law prohibiting nonconsensual assignment of the Licenses, since Petitioners failed to demonstrate they would be deprived of the benefit of their bargain if CBC assumed the Licenses.

ARGUMENT

I. THE CONFLICT AMONG THE CIRCUITS AND THE IMPORTANT FEDERAL LAW ISSUE PRESENTED

The issue of the proper application of 11 U.S.C. § 365(c) to limit the powers of a debtor in possession to assume and assign executory contracts has been among the "more mysterious and confusing in all the Bankruptcy Code and predictably [creates] litigation." Macey and Sacca, *Reconciling Sections 365(c)(1) and (f)(1) of the Bankruptcy Code: Should Anti-Assignment Laws Prohibit Assumption of Contracts by a Debtor in Possession?*, 100 Com. L.J. 117 (Summer 1995). "Virtually every time a Court of Appeal has addressed the issue, a unique analysis has resulted." Macey & Sacca, *supra* at 117. There exists "a divergence of approaches

almost as numerous as the cases found." King, *Assuming and Assigning Executory Contracts: A History of Indeterminate 'Applicable Law'*, 70 Am. Bankr. L.J. 95 (Spring 1996).

The Petitioners ask this Court to interpret section 365(c) of the Bankruptcy Code to resolve these numerous, conflicting interpretations of that statute by various United States Circuit Courts of Appeals, and to establish an interpretation more in line with the clear statutory language than the interpretation promulgated by the First Circuit. 11 U.S.C. § 365 permits a debtor in possession to assume and assign executory contracts under certain circumstances. However, the power to assume and assign executory contracts is not unlimited. 11 U.S.C. § 365(c)(1)(A) prohibits assumption or assignment where applicable nonbankruptcy law prohibits the debtor in possession from assigning the contract without the consent of the nondebtor party, "whether or not" the contract prohibits or restricts assignment.

The Petitioners contend that federal law prohibiting the assignment of patent licenses,[5] absent the consent of the

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[5] An unbroken string of federal court opinions unanimously have held for at least 145 years that "a nonexclusive licensee of a patent has only a personal and not a property interest in the patent and that this personal right cannot be assigned unless the patent owner authorizes the assignment or the license itself permits assignment." *Everex Systems, Inc.* v. *Cadtrak Corporation* (*In re CFLC, Inc.*), 89 F.3d 673, 679 (9th Cir. 1996), (quoting *Gilson* v. *Republic of Ireland*, 787 F.2d 655, 658 (D.C. Cir. 1986)) (citations omitted). *See also, Lane & Bodley Co.* v. *Locke*, 150 U.S. 193 (1893); *Hapgood* v. *Hewitt*, 119 U.S. 226 (1886); *Troy Iron & Nail Factory* v. *Corning*, 55 U.S. 193 (1852); *Unarco Industries, Inc.* v. *Kelly Co. Inc.*, 465 F.2d 1303, 1306 (7th Cir. 1972), *cert. denied*, 410 U.S. 929 (1973); *Bowers* v. *Lake Superior Contracting & Dredging*, 149 F. 983 (8th Cir. 1906); *Wood Harvester Co.* v. *Minneapolis-Esterly Harvester Co.*, 61 F. 256 (8th Cir. 1894); *Stenograph Corp.* v. *Fulkerson*, 972 F.2d 726, 729 n.2 (7th Cir. 1992). Consistently, Congress has expressly legislated the personal nature of patents and patent rights. 35 U.S.C. § 261 ("patents shall have the attributes of personal property").

licensor, constitutes "applicable law" triggering § 365(c)(1)(A)'s[6] plain language prohibition against assuming or assigning executory contracts without consent of the nondebtor party. The Court below, however, held that § 365(c)(1)(A) would prohibit assumption only if the Petitioners proved that they would not receive the "full benefit of [their] bargain" upon assumption. The Court held further that the Petitioners would, in fact, receive the benefit of their bargain in the event of assumption by the debtor in possession, and therefore § 365(c) does not prohibit CBC from assuming the Licenses.

This result contravenes the clear language of the statute. The First Circuit's decision conflicts with decisions of other Circuit Courts of Appeals, which prohibit assumption of executory contracts where "applicable" nonbankruptcy law prohibits assignment. In addition, the decision below improperly places the burden of proving the propriety of assuming or rejecting an executory contract under § 365(c) on the nondebtor party, in contravention of legal precedent from this Court placing the burden proof with respect to such issues on the debtor in possession. *See N.L.R.B.* v. *Bildisco and Bildisco*, 465 U.S. 513, 526 (1984).

A. *The decision of the Court of Appeals for the First Circuit below conflicts with the decisions of other Courts of Appeals.*

The decision of the First Circuit below squarely conflicts with the decision of the Third Circuit Court of Appeals in *In re*

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6 Unless otherwise indicated, all statutory references are to the United States Bankruptcy Code, 11 U.S.C. §§ 101-1130, as amended.

West Electronics, Inc., 852 F.2d 79 (1988) (applying plain language of § 365(c) to hold that contract between debtor in possession and federal government could not be assumed since contract is nonassignable under applicable nonbankruptcy law). *See also, Everex Systems, Inc. v. Cadtrak Corporation (In re CFLC, Inc.)*, 89 F.3d 673 (9th Cir. 1996) (hereinafter "*CFLC II*") (patent licenses are nonassignable under applicable law, and thus § 365(c) prohibits assumption and assignment of nonexclusive patent license); *In re James Cable Partners L.P.*, 27 F.3d 534 (11th Cir. 1994) (§ 365(c) prohibits assumption or assignment where applicable law specifically prohibits assignment of the contract); *Delightful Music, Ltd.* v. *Taylor* (*In re Taylor*), 913 F.2d 102 (3rd Cir. 1990); *In re Pioneer Ford Sales, Inc.*, 729 F.2d 27 (1st Cir. 1984) (Breyer, J.) (assumption prohibited if applicable law prohibits assignment).[7]

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[7] Other circuit court cases with divergent and conflicting interpretations of §365 include *LeRoux*, 69 F.3d 608 (applicable law irrelevant; assumption permitted unless nondebtor party demonstrates it will be deprived of the full benefit of its bargain); *Leonard* v. *General Motors Corp.* (*In re Headquarters Dodge, Inc.)*, 13 F.3d 674 (3d Cir. 1993) (vacating and remanding case with instructions to determine if contract at issue is "personal services" contract that is nonassignable under applicable law, and hence nonassumable under § 365(c)); *Metropolitan Airports Commission* v. *Northwest Airlines*, (*In re Midway Airlines, Inc.*), 6 F.3d 492 (7th Cir. 1993) (determining "applicable law" has different meanings in § 365(c) and § 365(f)); *Rieser* v. *Dayton Country Club Co.* (*In re Magness*), 972 F.2d 689 (6th Cir. 1992) (declining to follow First Circuit in *Pioneer Ford Sales*); *Pension Benefit Guaranty Corp. v. Braniff Airways, Inc.* (*In re Braniff Airways, Inc.*), 700 F.2d 935 (5th Cir.), *reh den.*, 705 F.2d 450 (5th Cir. 1983) (under plain language of § 365(c), Washington Airport Act, 7 D.C. Code §§ 1101-1107, constituted "applicable law," triggering the § 365(c) prohibition against assuming or assigning executory contracts).

Indeed, as noted above, a comparison of *Pioneer Ford Sales*, on the one hand, and *LeRoux* and the opinion below in this case on the other indicates,

The Third Circuit's *West* opinion represents a focal point against which most of the opinions compare themselves. In *West*, the debtor, a government contractor, sought an order compelling the government to make progress payments under

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different panels of the First Circuit conflict with each other. Similarly, the Fourth Circuit has affirmed *per curiam* two lower court decisions nine months apart that reached opposite results. *Compare*, *Gould* v. *Antonelli* (*In re Antonelli*), 148 B.R. 443 (D. Md. 1992), *aff'd without written opinion*, 4 F.3d 984 (4th Cir. 1993) (permitting assumption in face of "applicable law" prohibiting assignment) with *Catron* v. *Breeden* (*In re Catron*), 158 B.R. 629 (E.D. Va. 1993), *aff'd in unpublished opinion* 1994 WL 258400, 25 F.3d 1039 (4th Cir. 1994) (assumption prohibited because "applicable law" prohibited assignment). Pursuant to Fourth Circuit internal operating procedures, citation of unpublished opinions is disfavored. Thus, the decision of the Fourth Circuit in *Catron* as reported at 25 F.3d 1039 (4th Cir. 1994) states only that the lower court decision was affirmed. The unpublished opinion, which affirmed for the reasons set forth in the District Court opinion, can be found at the Westlaw citation.

Lower courts similarly are at odds. *See, e.g., In re American Ship Building Co., Inc.*, 164 B.R. 358 (Bankr. M.D. Fla. 1994) (debtor permitted to assume contract to build ships for United States Navy over objection of United States); *Texaco, Inc.* v. *Louisiana Land and Exploration Co.*, 136 B.R. 658 (Bankr. M.D. La 1992) (debtor permitted to assume mineral leases with Louisiana, over the objection of the state, despite state statute prohibiting assignments of state mineral leases without consent of state); *In re Fastrax, Inc.*, 129 B.R. 274 (Bankr. M.D. Fla. 1991) (debtor permitted to assume a contract with a subcontractor to its prime contract with the United States Air Force over objection of United States, where federal statute rendered contract nonassignable without consent of United States); *In re Hartec Enterprises, Inc.*, 117 B.R. 865 (Bankr. W.D. Tex. 1990) (debtor permitted to assume a contract with the United States Defenses Logistics Agency for the production of tractors used to tow heavy armaments and aircraft over objection of the United States); *In re Carolina Parachute Corp.*, 108 B.R. 100 (M.D. N.C. 1989) (debtor not permitted to assume contract which was otherwise unassignable under "applicable" Government Contract law); *In re Pennsylvania Peer Review Organization, Inc.*, 50 B.R. 640 (Bankr. M.D. Pa. 1985); *In re Adana Mortgage Bankers, Inc.*, 12 B.R. 977 (Bankr. N.D. Ga. 1980) (guaranty agreements which were unassignable under federal statute governing the Government National Mortgage Association triggered the § 365(c) prohibition against assumption or assignment).

the contract notwithstanding the existence of certain defaults by the debtor. The debtor claimed it had the ability to cure the defaults and assume the contract, and thus the default should not prevent the government from making the requested progress payments. The government cross-moved for relief from the automatic stay to terminate the contract. The bankruptcy court denied both motions as premature. The court indicated the debtor had the capacity to cure the default and should be given the opportunity to establish that it could perform. Similarly, the district court on appeal affirmed the bankruptcy court, reasoning that the contract, while executory, could be assumed by the debtor subject to cure of the defaults.

The Third Circuit reversed both the district and bankruptcy courts, ruling that since applicable nonbankruptcy law prohibited the debtor from assigning the contract over the government's objection, section 365(c)(1)(A) prohibited the debtor from assuming the contract. Thus, the court ruled, the government was entitled to relief from the automatic stay to terminate the contract since section 365(c)(1)(A) prohibits the Debtor from assigning it.

A number of Circuit Courts of Appeals have followed the Third Circuit's *West* opinion or are consistent with it. *See*, *In re Pioneer Ford Sales*, 729 F.2d at 29 (First Circuit); *CFLC II*, 89 F.3d 673 (Ninth Circuit); and *Catron*, 158 B.R. 629 (Fourth Circuit). Some commentators and subsequent opinions, however, have criticized *West*. *See*, Macey & Sacca, 100 Com. L.J. at 121. Even the critics, however, recognize that the *West* holding is the holding most faithful to the actual text of § 365(c). King, 70 Am. Bankr. L.J. at 111-12 n.78. Those cases rejecting *West*, and permitting assumption even where applicable law renders contracts nonassignable, have been criticized as imposing a judicial gloss on § 365(c) that is inconsistent with the actual text of § 365(c). Macey & Sacca,

100 Com. L.J. at 125; *see also*, *Patterson* v. *Shumate*, 504 U.S. 753, 766-67 (1992) (Scalia, J., concurring) (criticizing interpretive approaches to the Bankruptcy Code that stray from the text of the statute).

The cases that do not follow *West* are difficult to categorize. King, *supra*, suggests at least seven different approaches adopted by the Courts. The cases that decline to follow *West* focus upon the use of the phrase "applicable law" in both § 365(c) and § 365(f). Section 365(f) states that "except as provided in subsection (c) of this section, notwithstanding a provision in an executory contract ... or in *applicable law*, that prohibits, restricts or conditions the assignment of such contract ... the trustee may assign such contract or lease ..." if certain conditions are met. Although § 365(f) speaks only of assignment, and not assumption, the confusion arises because § 365(c), the recognized exception to § 365(f), appears to resuscitate in full the very anti-assignment "applicable law" which § 365(f) nullifies. *See*, *Rieser* v. *Dayton Country Club Co.* (*In re Magness*),972 F.2d 689, 698 (6th Cir. 1992) (Guy, J., concurring). The attempts to reconcile § 365(c) and § 365(f) create the context in which the courts, including the First Circuit below in this case, have conflicted with *West* and with each other.

The confusion caused by this welter of divergent and conflicting authorities has been so deep and difficult that it has lead at least one district court to discard statutory analysis entirely. In *In re Antonelli*, 148 B.R. 443, 447 (D. Md. 1992), *aff'd*, 4 F.3d 984 (4th Cir. 1993) (mem.), District Judge Motz crystallized the depth of the difficulties caused by the conflicting and irreconcilable opinions:

> Having outlined the issues, I cannot say with any sense of intellectual honesty that I believe

> that traditional approaches to legal analysis will lead to a principled conclusion. In my view the reality is that in attempting to accommodate competing policy interests, all of which are of substantial weight, Congress has enacted statutes which impose conflicting mandates and has created a statutory scheme leaving interstices which the courts necessarily must fill on a case by case basis. Under these circumstances I will not ornament my holding with a facade of precedent or references to what I deem to be inconclusive statutory language. Rather, I will simply state that I have concluded that here the Bankruptcy Court correctly found that the Plan properly balances the countervailing interests of expediting bankruptcy proceedings and maximizing the bankruptcy estate, on the one hand, and assuring fairness to non-debtor parties, on the other.

Id. at 447.

This deep uncertainty and conflict as expressed by Judge Motz cries out for dispositive review and decision by this Court so that debtors and nondebtors alike can know with some certainty what it is that § 365(c) permits and what it does not. This case provides this Court with the opportunity to resolve this dispute once and for all.

B. *The issue raised in this appeal is an important issue of federal law*

11 U.S.C. § 365(c) governs how the courts balance bankruptcy law policies with other important policies arising under nonbankruptcy law. Thus, defining the limits imposed by § 365(c) upon the powers of a debtor in possession to assume or assign executory contracts is an important issue of federal law that is worthy of resolution by this Court. This case squarely presents this Court with the opportunity to determine whether the bankruptcy policy of maximizing assets to creditors takes precedence over competing important federal policies, and if it does, the extent to which bankruptcy policy takes precedence.[8]

As Judge Motz noted in the passage from *Antonelli* quoted above, the conflict among the cases is deep and intractable precisely because the competing policy interests underlying the conflict are all of "substantial weight." *Id.* The Courts have sought to balance the bankruptcy policy of maximizing assets for creditors with other policy interests that § 365(c) seeks to promote. Some Courts (particularly the Ninth and Third Circuits) have concluded § 365(c) means these nonbankruptcy laws and policies override the bankruptcy policy of maximization of asset values for creditors. *See, e.g., In re West Electronics, Inc.*, 852 F.2d 79; *CFLC II, supra*. Yet other courts, including the First Circuit in this case below, have reached the opposite conclusion. Other Circuits have

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[8] This case is similar in this regard to the circumstances presented in *NLRB v. Bildisco & Bildisco*, 465 U.S. 513 (1984), where this Court granted certiorari to consider conflicting interpretations of the proper balance under § 365 between bankruptcy policy and federal labor law policies regarding collective bargaining agreements.

adopted an approach close to *West*, emphasizing the nonbankruptcy policy, but seek a middle ground by limiting assumption or assignment only where there is some indication the nonbankruptcy policy is particularized rather than general. *See e.g., In re James Cable Partners, Inc.*, 27 F.3d 534 (11th Cir. 1994) (enforcing nonbankruptcy law only where there is a specific prohibition against assignment of the contract at issue, rather than general contract law prohibiting assignment).

However, the sheer volume of cases addressing this issue demonstrates that the issue arises regularly in cases involving conflicts between bankruptcy policies and many other important competing policies and laws. Among the cases where the issue has been addressed have been cases where debtors or trustees have sought to assume nonassignable partnership agreements,[9] government contracts,[10] cable television franchise agreements,[11] mineral leases,[12] personal service contracts[13] and, of course, nonexclusive patent licenses. The breadth of § 365(c), applying to all executory contracts and unexpired leases of the debtor, means the issue arises frequently and will recur repeatedly. Thus resolution of this issue will facilitate the administration of cases in bankruptcy. *See, New York* v. *Saper*, 336 U.S. 328 (1949)

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9 *LeRoux*, 69 F.3d 608; *In re Cardinal Industries*, 116 B.R. 964 (Bankr. D. Ohio 1990).

10 *In re West*, 852 F.2d 79.

11 *James Cable Partners, L.P.*, 27 F.3d 534.

12 *Texaco, Inc.* v. *Louisiana Land and Exploration Co.*, 136 B.R. 658 (Bankr. M.D. Loan Advance. 1992).

13 *Delightful Music, Ltd.* v. *Taylor* (*In re Taylor*) 913 F.2d 102 (3rd Cir. 1990); *In re Taylor Manufacturing, Inc.*, 6 B.R. 370 (Bank. N.D. Ga. 1980).

(Court grants certiorari because the conflict related to a matter "of importance in the administration of the Bankruptcy Act").

C. *Particular important questions arising from the First Circuit's interpretation of § 365(c).*

Whatever ambiguities may exist in the use of the phrase "applicable law" in § 365(c), it cannot mean that applicable law is irrelevant and should be ignored simply because the identical phrase appears in § 365(f). Yet that is precisely what the First Circuit's decision below means. In the course of interpreting § 365(c), the First Circuit has effectively rewritten it to delete the words "applicable law" from the statute.[14]

As a result of the judicial gloss imposed upon § 365(c) by the First Circuit in *LeRoux* and in the decision in this case below, in the First Circuit § 365(c) prohibits a debtor in possession from assuming an executory contract only where the nondebtor party proves[15] it will be deprived of the full benefit of its bargain if the contract is assumed.

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14 Recent Supreme Court authority anticipated difficulties such as those involved in this case might arise from efforts to interpret the Bankruptcy Code. Compare, *Dewsnup* v. *Timm*, 502 U.S. 410 (1992) (phrase "allowed secured claim" appearing in 11 U.S.C. § 506(a) interpreted without reference to meaning of the identical phrase in 11 U.S.C. § 506(d)) with *Patterson* v. *Shumate*, 504 U.S. 753 (1992) (term "applicable nonbankruptcy law" in 11 U.S.C. § 541(c)(2) interpreted with reference to meaning of identical phrase appearing elsewhere in Bankruptcy Code), see particularly *Id.*, 504 U.S. at 766-67 (Scalia, J., concurring) (criticizing interpretive approaches that stray from text of Bankruptcy Code).

15 As discussed below, by placing the burden of proof on the nondebtor party, the First Circuit's opinion conflicts with the reasoning of this Court's decision in *Bildisco*, and is inconsistent with well established law predating the enactment of the 1978 Bankruptcy Code that holds the debtor, and not the nondebtor party, has the burden of proof on the issues relevant to whether assumption should be permitted.

This "benefit of the bargain" test turns § 365(c) on its head. The text of 11 U.S.C. § 365(c) focuses the inquiry away from the contract, as 11 U.S.C. § 365(c) operates by its terms "whether or not" the contract prohibits assignment. In order to determine the bargain to which the nondebtor party is entitled under the First Circuit's holding, however, a court must look not to applicable law, as directed by the text of § 365(c), but rather to the contract, notwithstanding 11 U.S.C. § 365(c)'s admonition that assumption is prohibited "whether or not" the contract prohibits assignment.

The First Circuit's reasoning below exposes how far from the actual text of § 365(c) that Court has strayed. The First Circuit devoted substantial attention to the contract language,[16] not to applicable law despite § 365(c), and found that the terms of the Licenses control whether CBC may assume the Licenses. The First Circuit has reduced the analysis of whether § 365(c) prohibits assignment to an analysis that differs little from classical state law contract analysis. In the parlance of contract analysis, only if there is a breach or potential breach of contract arising from the assumption would the First Circuit prohibit assignment, even though whether there has been a breach of the contract, or whether Petitioners would be deprived of the full benefit of

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16 The First Circuit's analysis of the Licenses not only is misplaced under § 365(c), it is in certain instances inconsistent with the plain language of the Licenses. For example, the First Circuit's decision twice states the clearly erroneous conclusion that the Licenses permit CBC "to incorporate [Petitioners'] HIV2 procedures into any diagnostic kits sold by CBC in the United States, Canada, Mexico, Australia, New Zealand and elsewhere." 104 F.3d at 490. In point of fact, the Licenses *prohibit* CBC from incorporating Petitioners' technology in kits sold in those countries. Licenses, *see infra* app. E § 2.1 and exh. A-C; and app. F §2.1 and exh. A-C.

their bargain, are not relevant considerations under the actual language of § 365(c).

In this case, the Court has particularly disturbed well-settled patent law policies in its interpretation of § 365(c). The nonbankruptcy policy at issue is the continued viability of 145 years of unanimous federal jurisprudence prohibiting nonconsensual assignments of nonexclusive patent licenses. The First Circuit's ruling creates a loophole through which bankrupt patent licensees may evade the long-standing federal prohibition against nonconsensual assignments of nonexclusive patent licenses, simply by structuring the transaction as requiring assumption, but not an outright assignment, of the patent license, and structuring the transaction as a stock sale.

The decision of the Court of Appeals below turns §365(c) on its head, and is a blueprint, a practice point, for practitioners to use to evade and render meaningless the long-standing federal prohibition against nonconsensual assignments of patent licenses. It is crucial to patent licensors that this Court close the loophole created by the opinion below, since it is the ability to control the identity of the party practicing the patented technology that is at the heart of what it is a patent licensor of a nonexclusive patent license holds. *CFLC II*, 89 F.3d at 679. By eviscerating that ability and that control, a licensor of a nonexclusive patent license effectively loses its patent rights altogether, since by granting a license to anyone, the license is available to all interested parties through the expediency of the stock transaction blessed by the First Circuit below.

Moreover, other subsections of §365 reveal the difficulties with the First Circuit's opinion below. Interpreting 11 U.S.C. § 365(c) as requiring an analysis of whether the nondebtor party will be deprived of the benefit of its bargain by

assumption or assignment renders 11 U.S.C. § 365(b)(1)(C) and 11 U.S.C. § 365(f) (2)(B) redundant. 11 U.S.C. § 365(b)(1)(C) is a limitation on the debtor in possession's power to assume a contract where there has been a default in the contract. The contract cannot be assumed unless the debtor in possession "provides adequate assurance of future performance." Similarly, 11 U.S.C. § 365(f)(2)(B) prevents assignment of a contract (regardless of whether there has been an earlier default) "unless adequate assurance of future performance by the assignee of such contract . . . is provided."

The requirement of adequate assurance of future performance is redundant with the First Circuit's requirement of a showing that the nondebtor party will not be deprived of the benefit of its bargain. Sections 365(b)(1)(C) and 365(f)(2)(B) would be unnecessary if Congress intended § 365(c) to apply except where the nondebtor party would be deprived of the benefit of its bargain by assumption.[17]

The First Circuit's benefit of the bargain test thus (i) diverts attention away from applicable law, as mandated by § 365(c) and the First Circuit's own *Pioneer Ford Sales, Inc.* opinion, and focuses instead on the contract, (ii) may produce a result at least facially conflicting with 11 U.S.C. § 365(f) where, as here, the nondebtor's power to prohibit assignments and other transfers is a central element of the bargain, (iii) is untethered to the two elements the text of 11 U.S.C. § 365(c) emphasizes, namely the identity of the party who will perform

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[17] Indeed, Macey & Sacca argue for Congressional amendment to 11 U.S.C. § 365 because they argue other provisions of 11 U.S.C. § 365 adequately protect the nondebtor party, and thus 11 U.S.C. § 365(c), as it exists now, is an unnecessary limitation on the power to assume contracts. Macey & Sacca at 130-31. Until any such amendment, however, 11 U.S.C. § 365(c) clearly operates to prohibit either assumption or assignment of the Licenses.

the contract and whether applicable nonbankruptcy law excuses the nondebtor party from accepting performance from a third party, and (iv) may render 11 U.S.C. § 365(b)(1)(C) surplusage.

II. THE FIRST CIRCUIT'S HOLDING CONFLICTS WITH THE REASONING OF THIS COURT'S PRECEDENT REGARDING THE BURDEN OF PROOF UNDER § 365

In *LeRoux* and in the case below, the First Circuit imposed the burden of proof on the nondebtor on the issues involved in determining whether assumption should be permitted. In so doing, the First Circuit's ruling conflicts with well established bankruptcy law precedent, and with the reasoning of this Court's opinion in *Bildisco, supra*.

Prior to *LeRoux* and this case below, the well established law was that the debtor, rather than the nondebtor party, had the burden of proof on all issues relating to any proposed assumption or assignment of an executory contract. *In re Anglo Energy Limited*, 41 B.R. 337, 340 (Bankr. S.D. N.Y. 1984) (court notes debtor has burden to demonstrate assumption or rejection would benefit the estate under bankruptcy code and former bankruptcy act). Consistently with this precedent, this Court, in *Bildisco*, 465 U.S. at 526, defined what must be demonstrated in order for a debtor to reject a collective bargaining agreement. This Court reasoned that it is the debtor in possession, and not the nondebtor party, that must make the required showing. In *Bildisco*, the Court ruled that in order to reject a collective bargaining agreement under § 365(a) of the Bankruptcy Code, the debtor, not the nondebtor party, bears the burden of proving that the contract will burden the estate, and that after careful scrutiny, the

equities balance in favor of rejecting the contract. 465 U.S. at 526. The nature of this test further emphasizes that it is the debtor, and not the nondebtor party, that has the burden of proof to make the requisite showing under § 365.

Without explanation, however, the First Circuit purports to impose the burden of proof upon the nondebtor party (here Petitioners) to demonstrate they will not be deprived of the benefit of their bargain. Indeed, CBC takes advantage of this change by arguing Petitioners, and not CBC, must make the requisite showing under *LeRoux*. Petitioners lost this appeal at the District Court level on the grounds it failed to meet this burden of proof transferred by the First Circuit to Petitioners. District Court Memorandum Order, *see infra* app. C at 30c. This case presents this Court with the opportunity to clarify that, consistent with *Bildisco*, the burden of proof on issues relating to assumption and rejection of executory contracts under § 365 remains with the debtor and should not be transferred to the nondebtor party.

CONCLUSION

For all of the foregoing reasons, Petitioners pray that this Court review this case by writ of certiorari.

Respectfully submitted,

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April 16, 1997

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Appendix A.

United States Court of Appeals
For the First Circuit

No. 96-2028

INSTITUT PASTEUR AND PASTEUR SANOFI DIAGNOSTICS,
Appellants,

v.

CAMBRIDGE BIOTECH CORPORATION,
Appellee.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF MASSACHUSETTS
[Hon. Nathaniel M. Gorton, U.S. District Judge]

Before
Cyr, Boudin and Lynch,
Circuit Judges.

Jeffrey D. Sternklar, with whom Michael Gottfried and Burns & Levinson LLP were on brief for appellants.

Joseph F. Ryan, with whom Jeffrey L. Jonas, Anthony L. Gray, Andrew P. Strehle and Brown, Rudnick, Freed & Gesmer, P.C. were on brief for appellee.

January 17, 1997

CYR, Circuit Judge. Unsuccessful in their intermediate appeal to the district court, Institut Pasteur and Pasteur Sanofi Diagnostics [collectively: "Pasteur"] again appeal from the bankruptcy court order which confirmed the chapter 11 reorganization plan ("Plan") proposed by debtor-in-possession Cambridge Biotech Corporation ("CBC"), the holder of two licenses to utilize Pasteur patents. The Plan provision central to the present dispute calls for the sale of all CBC stock to a subsidiary of bioMerieux Vitek, Inc. ("bioMerieux"), a major competitor of appellant Pasteur. Finding no error, we affirm.

I

BACKGROUND

CBC manufactures and sells retroviral diagnostic tests for detecting the human immunodeficiency virus (HIV) associated with AIDS. Its HIV diagnostics division annually generates approximately $14 million in revenues. Institut Pasteur, a nonprofit French foundation engaged in AIDS-related research and development, owns various patented procedures for diagnosing HIV Virus Type 2 ("HIV2 procedures"). Pasteur Sanofi Diagnostics holds the exclusive right to use and sublicense Institut Pasteur's patents.

In October 1989, CBC and Pasteur entered into mutual cross-license agreements, whereby each acquired a nonexclusive perpetual license to use some of the technology patented or licensed by the other. Specifically, CBC acquired the right to incorporate Pasteur's HIV2 procedures into any

diagnostic kits sold by CBC in the United States, Canada, Mexico, Australia, New Zealand and elsewhere.[1]

Each cross-license broadly prohibits the licensee from assigning or sublicensing to others. See Royalty-Free Cross-License, at § 7.1; Royalty-Bearing Cross-License, at § 8.1 ("[N]o other person shall acquire or have any right under or by virtue of this Agreement."). Nevertheless, either Pasteur or CBC was authorized to "extend to its Affiliated Companies the benefits of this Agreement so that such party shall remain responsible with regard [to] all [license] obligations." Id. § 1.4. "Affiliated Company" is defined as "an organization which controls or is controlled by a party or an organization which is under common control with a party." Id.

CBC filed its chapter 11 petition on July 7, 1994, and thereafter continued to operate its retroviral diagnostic testing business as debtor-in-possession. Its reorganization plan proposed that CBC assume both cross-licenses, see 11 U.S.C. § 365 (executory contracts),[2] continue to operate its retroviral diagnostics division utilizing Pasteur's patented HIV2 procedures, and sell all CBC stock to a subsidiary of bioMerieux, a giant French biotechnology corporation and Pasteur's direct competitor in international biotechnology sales. Pasteur previously had licensed bioMerieux to use its HIV2 procedures, but the earlier license related to a single product manufactured by bioMerieux (i.e., bioMerieux's VIDAS automated immunoassay test system), and applied only to VIDAS sales in markets other than the United States,

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[1] These cross-licenses expressly provide that Massachusetts law governs their interpretation. See Royalty-Free Cross-License, at § 9; Royalty-Bearing Cross-License, at § 10.

[2] The parties agree that the cross-licenses are "executory contracts," since substantial performance remains due by both parties. See Summit Inv. & Dev. Corp. v. Leroux (In re Leroux), 69 F.3d 608, 610 n.3 (1st Cir. 1995).

Canada, Mexico, Australia, and New Zealand, markets expressly encompassed within the CBC cross-licenses.

Not surprisingly, in due course Pasteur objected to the Plan. Citing Bankruptcy Code § 365(c), 11 U.S.C. § 365(c), it contended that the proposed sale of CBC's stock to bioMerieux amounted to CBC's assumption of the patent cross-licenses and their de facto "assignment" to a third party in contravention of the presumption of nonassignability ordained by the federal common law of patents, as well as the explicit nonassignability provision contained in the cross-licenses. Isabelle Bressac, Pasteur's licensing director, attested that Pasteur would not have granted its competitor, bioMerieux, or a subsidiary, a patent license under the terms allowed CBC.

The bankruptcy court authorized CBC to assume the cross-licenses over Pasteur's objection. It ruled that the proposed sale of CBC stock to bioMerieux did not constitute a de facto "assignment" of the cross-licenses to bioMerieux, but merely an assumption of the cross-licenses by the reorganized debtor under new ownership, and that Bankruptcy Code § 365(c) enabled CBC to assume the cross-licenses as debtor-in-possession because the prepetition licensing relationship between Pasteur and CBC was neither "unique" nor "something in the category of a personal services contract." In re Cambridge Biotech Corp., No. 94-43054, slip op. at 17-18, 24 (Bankr. D. Mass. Sept. 18, 1996); Tr. 176-77.[3] The district court upheld the bankruptcy court ruling on intermediate appeal.

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[3] The bankruptcy court further found that the Plan had been proposed in good faith, see 11 U.S.C. § 1129(a)(3), and that the stock sale to bioMerieux had been negotiated in good faith and at arm's length. In re Cambridge Biotech Corp., No. 94-43054, slip op. at 7, 12.

II

DISCUSSION

A. Appellate Jurisdiction

Citing our decision in Rochman v. Northeast Utils. Serv. Group (In re Public Serv. Co. of N.H.), 963 F.2d 469 (1st Cir.) ("Public Service"), cert. denied, 506 U.S. 908 (1992), CBC now moves to dismiss the appeal for lack of appellate jurisdiction. It contends that Pasteur failed to pursue all available remedies for preserving a temporary stay of the confirmation order pending appeal after this court lifted the temporary stay on October 9, 1996.[4] See Trone v. Roberts Farms, Inc. (In re Roberts Farms, Inc.), 652 F.2d 793, 798 (9th Cir. 1981) (noting that appellant should file motion to stay judgment with Circuit Justice if necessary). Since CBC substantially consummated its Plan on October 21, 1996, it argues that Pasteur can no longer be afforded complete relief because neither this court nor the bankruptcy court has jurisdiction over the many third parties affected by, and much of the res distributed pursuant to, the consummated Plan. Finally, CBC argues, no court can now provide Pasteur with meaningful partial relief, such as selective rescission of the stock sale or the cross-license assumption/assignment provisions, because retention of these cross-licenses by CBC is indispensable to any successful reorganization of its

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4 A series of stays had prevented CBC from consummating the Plan by August 2, 1996, as scheduled, and a final consummation date was set for October 31, 1996. In early October, CBC asked this court to vacate the pending stay, claiming that further delay threatened irreparable injury. It represented that almost half its employees had quit during the preceding year, jittery clients had begun to cancel contracts, and that its revenues had declined by 10%.

retroviral diagnostics business, and, from bioMerieux's standpoint, is a "deal-busting" component of the Plan. See Plan § IX.B.2.a ("[P]rovisions of the Confirmation Order are nonseverable and mutually dependent."). We disagree.

Contrary to CBC's suggestion, our Public Service decision does not reduce to the simplistic theme that appellate courts invariably are deprived of jurisdiction by the lack (or premature dissolution) of a stay which results in substantial plan consummation prior to final disposition of the appeal. Rather, we rested our decision in Public Service primarily on two circumstantial considerations. See In re Andreuccetti, 975 F.2d 413, 418 (7th Cir. 1992) (noting that Public Service contemplates that "'[t]he court should reach a determination upon close consideration of the relief sought in light of the facts of the particular case'") (citation omitted).

First, the equities weighed heavily against the appellants in Public Service, who repeatedly and inexplicably failed to avail themselves of interlocutory appeals from earlier denials of their requests for stay by the courts below. As a consequence of their notable lack of diligence, a full sixteen months had elapsed from the date of confirmation, during which "implementation of the confirmed plan proceeded apace." In re Public Serv., 963 F.2d at 472. In contrast, Pasteur assiduously preserved its stay throughout the three-month period which elapsed following confirmation, and, on the day this court dissolved the temporary stay, we expedited the Pasteur appeal.

Second, Public Service involved extraordinarily intricate Plan provisions, as well as a multi-billion dollar enterprise, with the result that any attempted Plan dismantling following the substantial and unexcused lapses by appellants would have produced "'a nightmarish situation for the bankruptcy court on remand.'" Id. at 474 (citation omitted); see, e.g., Baker &

Drake, Inc. v. Public Serv. Comm'n of Nev., 35 F.3d 1348, 1351-52 (9th Cir. 1994) (finding appellate jurisdiction, and noting that reorganization plan at issue was "not a complex, billion-dollar affair" like the plans in Trone and Public Service). Although the CBC Plan is not without its own complexities, CBC is a much less complex enterprise than Public Service, and its Plan was substantially consummated much more recently in relation to the date of appeal.[5]

We need not resolve the jurisdictional challenge urged upon us by CBC, however, since the merits of Pasteur's contention — that CBC's assumption of the cross-licenses and its sale of stock to the bioMerieux subsidiary contravene Bankruptcy Code § 365(c) — are readily dispatched. See Casco N. Bank, N.A. v. DN Assocs. (In re DN Assocs.), 3 F.3d 512, 515 (1st Cir. 1993) (noting that appellate court may bypass jurisdictional questions where appeal would falter on merits even assuming jurisdiction) (citing Norton v. Mathews, 427 U.S. 524, 532 (1976)).

B. The Merits[6]

Pasteur argues that the CBC Plan effects a de facto assignment of its two cross-licenses to bioMerieux, contrary to Bankruptcy Code § 365(c)(1) which provides as follows:

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5 The equitable and pragmatic tests employed in Public Service are symbiotic. See In re UNR Indus., 20 F.3d 766, 769 (7th Cir.), cert. denied, 115 S. Ct. 509 (1994) ("There is a big difference between inability to alter the outcome (real mootness) and unwillingness to alter the outcome ('equitable mootness')," and "[u]sing one word for two different concepts breeds confusion"; instead, appellate courts ultimately must ask "whether it is prudent to upset the plan or reorganization at this late date.") (citations omitted).

6 We review the district court's conclusions of law de novo and the bankruptcy court's findings of fact for clear error only. See Petit v. Fessenden, 80 F.3d 29, 32 (1st Cir. 1996).

> The trustee [viz., CBC][7] may not assume or assign any executory contract . . . , whether or not such contract . . . prohibits or restricts assignment of rights or delegation of duties, if —
>
> > (1)(A) applicable law excuses a party [ ] other than the debtor[ ] [viz., Pasteur] to such contract . . . from accepting performance from or rendering performance to an entity other than the debtor or the debtor in possession, whether or not such contract . . . prohibits or restricts assumption or assignment; and
> >
> > (B) such party [viz., Pasteur] does not consent to such assumption or assignment
> >
> > . . . .
>
> 11 U.S.C. § 365(c)(1).

Pasteur argues that in order to encourage optimum product innovation the federal common law of patents presumes that patent licensees, such as CBC, may not sublicense to third parties absent the patent holder's consent. See, e.g., Commissioner v. Sunnen, 333 U.S. 591, 609 (1948). This federal common law rule of presumptive nonassignability thus qualifies as an "applicable law," within the meaning of Bankruptcy Code § 365(c)(1)(A), which precludes Pasteur from being compelled to accept performance from any entity other than CBC — e.g., bioMerieux's subsidiary — and

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[7] As debtor-in-possession, CBC has substantially the same rights and powers as a chapter 11 trustee, including the power to assume executory contracts under Bankruptcy Code § 365. See 11 U.S.C. § 1107.

therefore prevents CBC from either assuming or assigning these cross-licenses. See Everex Sys., Inc. v. Cadtrak Corp. (In re CFLC, Inc.), 89 F.3d 673, 679-80 (9th Cir. 1996) (federal patent law of nonassignability preempts state law relating to patent license assignability). Further, says Pasteur, even assuming that section 365(c) might allow a debtor simply to assume the cross-licenses without a subsequent assignment to a third-party, CBC formally structured this Plan transaction as an assumption by the debtor-in-possession, whereas in substance it was an assignment of the cross-licenses to bioMerieux, a complete stranger to the original cross-licensing agreements.

These contentions are foreclosed by our decision in Summit Inv. & Dev. Corp. v. Leroux (In re Leroux), 69 F.3d 608 (1st Cir. 1995),[8] which analyzed and interpreted companion Bankruptcy Code subsections 365(c) and (e) and their relevant legislative history.[9] As in the present case, in Leroux we were urged to interpret subsections 365(c) and (e) as mandating a "hypothetical test." Under such an approach, the chapter 11 debtor would lose its option to assume the contract, even though it never intended to assign the contract to another entity, if either the particular executory contract or

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[8] See Williams v. Ashland Eng'g Co., 45 F.3d 588, 592 (1st Cir.) ("In a multi-panel circuit, newly constituted panels are, for the most part, bound by prior panel decisions closely on point."), cert. denied, 116 S. Ct. 51 (1995).

[9] Bankruptcy Code § 365(e)(2)(A) provides that a statutory or contractual termination provision, which is contingent upon the filing of a bankruptcy petition, may be enforceable in bankruptcy if the "applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to the trustee or to an assignee of such contract or lease, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and (ii) such party does not consent to such assumption or assignment . . . ." 11 U.S.C. § 365(e)(2)(A) (emphasis added).

the applicable nonbankruptcy law purported to terminate the contract automatically upon the filing of the chapter 11 petition or to preclude its assignment to an entity not a party to the contract. Id. at 612.

We rejected the proposed hypothetical test in Leroux, holding instead that subsections 365(c) and (e) contemplate a case-by-case inquiry into whether the nondebtor party (viz., Pasteur) actually was being "forced to accept performance under its executory contract from someone other than the debtor party with whom it origianlly contracted." Id. Where the particular transaction envisions that the debtor-in-possession would assume and continue to perform under an executory contract, the bankruptcy court cannot simply presume as a matter of law that the debtor-in-possession is a legal entity materially distinct from the pre-petition debtor with whom the nondebtor party (viz., Pasteur) contracted. Id. at 613-14 (citing H.R. Rep. No. 1995, 96th Cong., 2d Sess. § 27(b) (1980); NLRB v. Bildisco & Bildisco, 465 U.S. 513, 528 (1984)). Rather, "sensitive to the rights of the nondebtor party (viz., Pasteur)," the bankruptcy court must focus on the performance actually to be rendered by the debtor-in-possession with a view to ensuring that the nondebtor party (viz., Pasteur) will receive "the full benefit of [its] bargain." Id. at 612-13 (citing S. Rep. No. 989, 95th Cong., 2d Sess. 59 (1978), reprinted in 1980 U.S.C.C.A.N. 5787, 5845).

Given the pragmatic "actual performance" test adopted in Leroux, the ultimate findings of fact and conclusions of law made by the bankruptcy court[10] below did not constitute error.

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10 We are not persuaded by Pasteur's contention that the failure to cite Leroux in the confirmation order indicates that the bankruptcy court failed to follow it. Pasteur itself cited Leroux at the July 1996 confirmation hearing, and the bankruptcy court's ultimate findings faithfully track its model.

CBC simply does not occupy the same position as the debtor in CFLC, Inc., 89 F.3d 673 (9th cir. 1996), upon which Pasteur relies most heavily. The Plan in CFLC, Inc. unmistakably provided for an outright assignment of the debtor's patent license to an entirely different corporation with which the patent holder Cadtrak Corporation had never contracted. Id. at 679-80. By contrast, CBC all along has conducted, and proposes to continue, its retroviral diagnostic enterprise as the same corporate entity which functioned prepetition, while utilizing Pasteur's HIV2 procedures in that same prepetition endeavor.

Pasteur nonetheless insists that the reorganized CBC is different than the prepetition entity, not due merely to its chapter 11 filing but because it is now owned by a different legal entity than before — namely, bioMerieux's subsidiary qua CBC shareholder. Pasteur's contention finds no support, however, either in Massachusetts law, see supra note 1, or in the cross-license provisions it negotiated.

Stock sales are not mergers whereby outright title and ownership of the licensee-corporation's assets (including its patent licenses) pass to the acquiring corporation. Rather, as a corporation, CBC "is a legal entity distinct from its shareholders." Seagram Distillers Co. v. Alcoholic Beverages Control Comm'n, 519 N.E.2d 276, 281 (Mass. 1988) (citing 6 William M. Fletcher, Cyclopedia of Corporations § 2456 (1979 & Supp. 1986)). Absent compelling grounds for disregarding its corporate form, therefore, CBC's separate legal identity, and its ownership of the patent cross-licenses, survive without interruption notwithstanding repeated and even drastic changes in its ownership. See id. (holding that corporation's sale of all its capital stock does not alter its identity, nor effect a transfer of the corporation's executory contracts or licenses); see also PPG Indus. v. Guardian Indus.

Corp., 597 F.2d 1090, 1096 (6th Cir.), cert. denied, 444 U.S. 930 (1979) (same; distinguishing mere sale of stock from a transfer of patent license as part of corporate merger wherein merging licensee ends its corporate existence). Pasteur cites no apposite authority to the contrary.

Furthermore, Pasteur's position finds no support in the negotiated terms of its cross-licenses. As the patent holder — and given CBC's corporate form and the governing Massachusetts law, supra — Pasteur was free to negotiate restrictions on CBC's continuing rights under the cross-licenses based on changes in its stock ownership or corporate control. See id. at 1095 (parties may override law of merger by negotiating express patent license provision); see also Seagram, 519 N.E.2d at 280-81.[11] Nevertheless, these cross-licenses contain no provision either limiting or terminating CBC's rights in the event its stock ownership were to change hands. The generic nonassignability provisions found in these cross-licenses, see, e.g., Royalty-Free Cross-License, at § 7.1 ("This Agreement . . . has been made solely for the benefit of the parties hereto" and "no other person shall acquire or have any right under or by virtue of this Agreement."), plainly do not address the circumstance presented here. Rather, these nonassignability provisions simply beg the essential question, which is whether bioMerieux's subsidiary, by virtue of its acquisition of CBC stock, terminated CBC's rights under the cross-licenses. Interpreted as Pasteur proposes, CBC's own rights under the cross-licenses would terminate with any change in the identity of any CBC stockholder.

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11 Notwithstanding Pasteur's reliance on the important policy goals animating the federal common law of patents, the product-innovation theme promoted under patent law may well be accommodated by allowing patent holders to control sublicensing through negotiated contract restrictions.

Other cross-license provisions directly undercut Pasteur's interpretation as well. See Willitts v. Roman Catholic Archbishop of Boston, 581 N.E.2d 475, 478 (Mass. 1991) (noting that a contract must be interpreted as a whole). These cross-licenses explicitly authorize CBC to share its license rights with any "affiliated company," which on its face presumably encompasses a parent corporation such as bioMerieux's subsidiary. Cross-Licenses, at § 1.4 (defining "Affiliated Company" as "an organization which controls . . . a party or an organization which is under common control with a party"); see supra Section I. Yet more importantly, CBC insisted upon a provision which would afford it the unilateral right to terminate any sublicense Pasteur might extend to a company called Genetic Systems "if control of Genetic Systems shall . . . be acquired, directly or indirectly, by any person or group of connected persons or company not having such control at the date hereof, by reconstruction, amalgamation, acquisition of shares or assets or otherwise." Royalty-Free Cross-license, at § 2.3 (emphasis added); see PPG Indus., 597 F.2d at 1096 (noting that patent holder's express reservation of change-of-stock-ownership condition in two patent licenses suggested its intention not to reserve condition in nine other patent licenses); see also Plumbers & Steamfitters Local 150 v. Vertex Constr. Co., 932 F.2d 1443, 1449 (11th Cir. 1991) ("[T]he doctrine of expressio unius est exclusio alterius instructs that when certain matters are mentioned in a contract, other similar matters not mentioned were intended to be excluded."). Taken together, these provisions persuade us that Pasteur foresaw, or reasonably should have foreseen, that CBC might undergo changes of stock ownership which would not alter its corporate legal

identity, but nonetheless chose not to condition the continued viability of its cross-licenses accordingly.[12]

III
CONCLUSION

As CBC remains in all material respects the legal entity with which Pasteur freely contracted, Pasteur has not made the required individualized showing that it is or will be deprived of "the full benefit of [its] bargain," Leroux, 69 F.2d at 612-13, under the ruling challenged on appeal. Accordingly, the district court judgment is affirmed and costs are awarded to appellee.

So ordered.

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[12] Lastly, Pasteur misplaces reliance upon In re Alltech Plastics, Inc., 5 U.S.P.Q.2d 1806 (Bankr. W.D. Tenn. 1987), where it was held that section 365(c) precluded an entity, which had acquired the corporate debtor's stock pursuant to a chapter 11 reorganization plan, from exercising the debtor's rights under a prepetition patent license. Following the conversion of its original chapter 11 reorganization case to a chapter 7 liquidation, Alltech discontinued all operations and discharged its employees. Before the debtor once again converted to chapter 11, its trustee liquidated virtually all its assets, except for its patent license. Noting that plan confirmation is a fact-intensive, equity-based inquiry, id. at 1813, the bankruptcy court characterized the sale of Alltech's stock to Fluoropak Container Corporation as a de facto assignment of the patent license to a noncontracting party. It so held because unlike CBC, Alltech had ceased to exist except as a "shell." Id. at 1807 & 1810 (noting that "shell" emerging after Alltech's chapter 7 conversion "is in reality a different entity than the prepetition Debtor"). The bankruptcy court specifically observed that the "attempted innovative rebirth of a corporate shell is not analogous to a sale of stock by an active corporation," id. at 1810-11, and that "the present case is distinguished from one where the reorganizing debtor, operating continuously and in good standing with its licensor, seeks to approve the sale of its stock [to a third party]," id. at 1812. The bankruptcy court further noted that the lack of demonstrated expertise on the part of Fluoropak, in utilizing the patented process to manufacture toxic-material containers, likewise posed a serious public safety risk. Id. These distinguishing circumstances make Alltech inapposite.

Appendix B.

UNITED STATES COURT OF APPEALS
FOR THE FIRST CIRCUIT

No. 96-2028

INSTITUT PASTEUR AND PASTEUR SANOFI DIAGNOSTICS,
Appellants,

v.

CAMBRIDGE BIOTECH CORPORATION,
Appellee.

JUDGMENT

Entered: January 17, 1997

This cause came on to be heard on appeal from the United States District Court for the District of Massachusetts, and was argued by counsel.

Upon consideration whereof, it is now here ordered, adjudged and decreed as follows: **The judgment of the distict court is affirmed. Costs awarded to appellee.**

By The Court
WILLIAM H. NG
Clerk.

[cc: Messrs. Sternklar & Ryan]

Appendix C.

UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

INSTITUT PASTEUR AND PASTEUR SANOFI DIAGNOSTICS, Appellants	)
v.	)Civil Action
CAMBRIDGE BIOTECH CORPORATION, Appellee	)No. 96-40176-NMG
IN RE: CAMBRIDGE BIOTECH CORPORATION Debtor	)
	) DOCKETED

MEMORANDUM AND ORDER

GORTON, J.

Appellants, Institut Pasteur ("IP") and Pasteur Sanofi Diagnostics ("PSD") , collectively referred to as "Pasteur," appeal from an Order of the United States Bankruptcy Court confirming the plan of reorganization of the debtor, Cambridge Biotech Corporation ("CBC" or "debtor") . Pasteur contends that confirmation of the plan contravened 11 U.S.C. § 1129(a)(1) because the plan unlawfully permits the assumption and assignment of certain cross-licenses, in violation of 11 U.S.C. 365(c)(1)(A). This court has jurisdiction over the appeal pursuant to 28 U.S.C. § 158(a). For the reasons that follow, this Court affirms the Order of the Bankruptcy Court.

I. Factual and Procedural Background

A. The Parties

CBC is a biotechnology company with facilities in Worcester, Massachusetts and Rockville, Maryland. CBC's operations include two principal lines of business: 1) a biopharmaceutical business that develops, manufactures, and sells vaccines and related products, and 2) a diagnostics business that manufactures and sells diagnostic tests to detect the presence of specific disease-causing organisms.[1] Most of CBC's revenues are derived from the diagnostics business.

IP, a French foundation, discovered and was granted certain patents pertaining to the HIV virus. PSD holds an exclusive license to practice and to commercialize IP's patented technology by entering into appropriate sublicense agreements with respect to the patents.

B. The Cross-Licenses

In October, 1989, Pasteur entered into two cross-license agreements with CBC concerning the manufacture and sale of diagnostic tests for the detection of the HIV virus associated with AIDS. One of the licenses is a royalty-bearing license, while the other is a royalty-free license. Pursuant to the licenses, Pasteur granted CBC nonexclusive rights to practice

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[1] The diagnostics business itself is comprised of two components: 1) an "enterics" business which focuses on diagnosis of gastrointestinal and other diseases, and 2) a "retroviral" business which focuses on the diagnosis of diseases caused by retroviruses, principally the HIV virus.

IP's patented technology in certain geographical areas. The licenses include provisions that they:

> [are] not assignable without the prior written consent of all the parties hereto and [have] been made solely for the benefit of the parties hereto, their respective successors and permitted assigns, and no other person shall acquire or have any right under or by virtue of [these] Agreement[s].

See § 7.1 of the Royalty-Free License, Appendix ("App.") at 7; § 8.1 of the Royalty-Bearing License, App. at 17.[2]

C. CBC's Plan of Reorganization

On July 7, 1994, CBC filed a voluntary petition for relief pursuant to Chapter 11 of the United States Bankruptcy Code. Pursuant to the Debtor's Plan of Reorganization ("the Plan"), all of CBC's operations other than its retroviral business will be spun off into a newly-formed corporation, Aquila Biopharmaceuticals, Inc. ("Aquila"), which will be owned by CBC's existing creditors and shareholders.[3] Pursuant to the Plan, CBC will then issue new stock in itself to Aquila, and Aquila

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[2] The cross-licenses are based upon mutual convenience, inasmuch as CBC and Pasteur each had certain patent rights that the other party needed in order to make and sell their own HIV test kits. Neither party depended upon the other to exploit the technology, but the cross-licenses were intended to enable each party to "develop its own tests."

[3] In anticipation of Plan confirmation, CBC sold its enterics business to Meridian Diagnostics, Inc. for $5.7 million in cash on July 24, 1996.

will sell all CBC stock to bioMérieux Vitek, Inc. ("bioMérieux") for $5.85 million in cash.[4]

After consummation of the Plan, CBC will continue to operate its manufacturing business in Rockville and retain its existing employees there, as well as all inventory and equipment. The Maryland real estate will, however, be leased from Aquila rather than owned by CBC. CBC will retain all intellectual property relating to retroviruses, which includes the patent licenses entered into between Pasteur and CBC, as well as 38 other licenses and sublicense agreements. Assumption by CBC of all such licenses and sublicenses, together with certain supply and other agreements, is a condition of the bioMérieux transaction.

D. bioMérieux's Relationship to Pasteur

The buyer of CBC's stock, bioMérieux Vitek, is a subsidiary of bioMérieux S.A., a large French biotechnology corporation with sales of nearly $500,000,000 in 1995 and a significant market share in the infectious disease diagnostics market outside of the United States. bioMérieux S.A.'s principal products are two diagnostic instruments known as

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[4] The Master Acquisition Agreement among Aquila, CBC and bioMérieux provides, at § 1.2 that the parties "may agree to restructure the transactions provided for herein in the form of an asset purchase in the event that effectiveness of the Plan were to be unreasonably delayed and restructuring of the transaction provided an alternative satisfactory to each, subject to Bankruptcy Court approval." App. at 39. In addition, the Agreement provides, at § 2.3(f), that, at closing, Aquila must deliver an opinion of Coopers & Lybrand "to the effect that the consummation of the transactions will . . . cause the sale of the [CBC stock] to be treated as a sale of assets [for tax purposes]." App. at 42.

"VIDAS" and "VITEK." The VIDAS instrument--which consists of an automated test system that can test for a number of infectious agents--is used principally by hospitals and small laboratories. The VITEK instrument is an automated test system that processes samples of biological materials to identify diseases which may be present. Affidavit of Isabelle Bressac ("Bressac Aff."), App. at 831.

Pasteur has granted a license to bioMérieux S.A. to test for HIV Type 2 in most areas of the world (with the exception of the United States, Canada, Australia, Mexico, New Zealand and India), but only as part of the VIDAS-system used by bioMérieux. Id. That license is thus limited both geographically and by the applications of the patented technology that may be practiced by bioMérieux S.A. As consideration for the license, bioMérieux S.A. paid Pasteur the equivalent of approximately $650,000 and continues to pay a 15% royalty on net sales. Id.[5]

E. Proceedings in the Bankruptcy Court

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[5] Pasteur explains the dual limitations of the license with bioMérieux S.A. as follows:

> As a normal business practice, [Pasteur] typically attempts to receive rights to technology owned by its licensees to obtain desired technology in return for and as part of any license it gives for HIV2 patents. The extent of the technology it receives, and the royalty rate it pays for technology it receives and is paid for the HIV2 patents, depends upon the scope of the HIV2 license it negotiates in good faith and at arms length to provide to third parties. On certain occasions the HIV2 licenses [Pasteur] grants are limited in scope, both in the applications to which the patented technology may be practiced and the geographical territories in which the patented technology may be practiced.

Appellants, Brief at 10.

On July 9, 1996, Pasteur filed an objection to the Plan, contending that 11 U.S.C. § 365(c) prohibited both the assumption and assignment of the cross-licenses that were the subject of the October 1989 license agreements without its consent. The Bankruptcy Court overruled Pasteur's Objection and, in the Confirmation Order issued by that Court on July 18, 1996, ruled as follows:

> The assumption of the Royalty-Free Cross License Agreement and the Royalty-Bearing Cross-License, . . . as proposed in the Plan, is approved.
>
> The objections of [Pasteur] to confirmation of the Plan and to the assumption of the [cross-licenses] are overruled. In that connection, the Court concludes that (1) there is no "assignment" of the [cross-licenses] within the meaning of Section 365(f) of the Bankruptcy Code effected by the assumption of such agreements as proposed under the Plan; (2) to the extent that the stock sale to bioMérieux is considered to give rise to an "assignment" of the [cross-licenses], Section 365(f) of the [Code] permits the assignment; (3) the cited cases holding that patent licenses are non-assignable constitute applicable law prohibiting, restricting or conditioning assignment that is overridden by Section 365(f) . . .; (4) Section 365(c) of the Code does not preclude assumption or assignment of the [cross-licenses] as the agreements represent a business transaction that does not evidence a unique relationship between [Pasteur] and CBC; and (5) CBC and bioMérieux have provided adequate assurance of future performance of the [cross-licenses].

Confirmation Order at ¶ 34(h).

This appeal followed.

II. Standard of Review

The Bankruptcy Court's findings of fact are reviewed under the "clearly erroneous" standard and its conclusions of law are reviewed de novo. Fed.R.Bankr.P. 8013; In re Winthrop Old Farm Nurseries, Inc., 50 F.3d 72, 73 (lst Cir. 1995).

III. Analysis

The Bankruptcy Code generally grants a trustee in bankruptcy the authority to assume or to reject executory contracts. 11 U.S.C. § 365. As summarized recently by the Ninth Circuit Court of Appeals:

> Ordinarily, a trustee may take either of these actions without the consent of the other party to the contract . . . and notwithstanding a provision in the [contract] that purports to restrict assignment. See 11 U.S.C. §§ 365(a) & (f)(1) . . . . Once a contract has been assumed, the trustee can assign it. 11 U.S.C. § 365(f). The trustee's power, however, is not absolute, and both § 365(a), which authorizes assumption, and § 365(f), which authorizes assignment, are expressly subject to an exception provided in § 365(c) . . . . .

In re CFLC, Inc., 89 F. 3d 673, 676 (9th Cir. 1996) (internal citation, quotation and footnote omitted; emphasis in original).

A. The Exception to the General Rule of Assumption and Assignment

Subsection 365(c)(1) prohibits assumption or assignment over the objection of the other party to the contract when "applicable law" excuses the other party "from accepting performance from or rendering performance to an entity other than the debtor."[6]

In its brief and again at oral argument, Pasteur repetitiously argued that "144 years of unanimous federal jurisprudence" prohibit the transactions contemplated by the Plan. Representative of that body of law is In re CFLC, Inc., supra, an appeal decided one day after the Bankruptcy Court confirmed the Plan in the instant case. In CFLC, the debtor ("CFLC") entered into a patent license agreement with Cadtrak Corporation ("Cadtrak"). In consideration of a one-time payment of $290,000, Cadtrak granted CFLC a royalty-free, worldwide, nonexclusive license to use certain computer graphics technology on which Cadtrak held a patent.

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[6] Subsection 365(c) provides that:

> The trustee may not assume or assign any executory contract of the debtor, whether or not such contract prohibits or restricts assignment of rights or delegation of duties, if–
>
> (1)(A) applicable law excuses a party, other than the debtor, to such contract . . . from accepting performance from or rendering performance to an entity other than the . . . debtor in possession, whether or not such contract or lease prohibits or restricts assignment or rights or delegation or duties; and
>
> (B) such party does not consent to such assumption or assignment. . . .

In 1993, CFLC commenced a Chapter 11 proceeding. In the course of the bankruptcy proceeding, the debtor sold certain divisions, subsidiaries and property , and thereafter sought and obtained the Bankruptcy Court's approval to sell "substantially all" of its remaining assets (i.e., its remaining operating assets, certain intangible assets such as its name and goodwill, and certain contract rights) to Yside Corporation ("Yside"). 89 F.3d at 675.[7] Under the terms of the sales agreement, CFLC was required to assign to Yside executory contracts designated by Yside.

In January, 1994, CFLC filed a motion in its Chapter 11 proceeding to assume executory contracts--including the Cadtrak patent license--and to assign them to Yside. Cadtrak opposed the assignment. The Bankruptcy Court held that the Cadtrak license was not assignable without Cadtrak's consent and eventually allowed CFLC's motion as to all contracts except the Cadtrak license. The District Court affirmed the Bankruptcy Court's ruling, and CFLC appealed to the Ninth Circuit Court of Appeals.

The Court of Appeals first observed that the determination of whether § 365(c) bars assumption and assignment of the nonexclusive patent license turned on whether or not "applicable law" excuses the non-debtor party to the contract from accepting performance from, or rendering performance to, anyone other than the debtor. After surveying the judicial landscape, and, in particular, opinions in the Sixth and Seventh Circuits, the CFLC Court determined that the "applicable law" for purposes of § 365(c) was federal common law, not state law. 89 F.3d at 679; see also PPG Industries, Inc. v. Guardian Industries Corp., 597 F.2d 1090, 1093 (6th Cir.), cert. denied, 444 U.S. 930 (1978); Unarco Industries,

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[7] Yside eventually changed its name to Everex Systems, Inc., but, for the sake of simplicity, the buyer will continue to be referred to as Yside.

Inc. v. Kelley Co., 465 F.2d 1303, 1306 (7th Cir. 1972), cert. denied, 410 U.S. 929 (1973).

Having determined that federal common law applied, the Ninth Circuit next concluded that, pursuant to such law, patent licenses are personal and nonassignable unless expressly made assignable. 89 F.3d at 679; see also Gilson v. Republic of Ireland, 787 F.2d 655, 658 (D.C. Cir. 1986) ("It is well settled that a non-exclusive licensee of a patent has only a personal and not a property interest in the patent and that this personal right cannot be assigned unless the patent owner authorizes the assignment or the license itself permits assignment."); PPG Industries, 597 F.2d at 1093; Unarco, 465 F.2d at 1306. The CFLC Court explained that:

> [A]llowing states to allow free assignability--of nonexclusive patent licenses would undermine the reward that encourages invention because a party seeking to use the patented invention could either seek a license from the patent holder or seek an assignment of an existing patent license from a licensee. In essence, every licensee would become a potential competitor with the licensor-patent holder in the market for licenses under the patents. And while the patent holder could presumably control the absolute number of licenses in existence under a free assignability regime, it would lose the very important ability to control the identity of its licensees. Thus, any license a patent holder granted--even to the smallest firm in the product market most remote from its own--would be fraught with the danger that the licensee would assign it to the patent holder's most serious competitor, a party whom the patent holder itself might be absolutely unwilling to license.

89 F. 3d at. 679 (emphasis in original) Accordingly, the CFLC Court concluded that, because "federal law makes [nonexclusive patent] licenses personal and assignable only with the consent of the licensor, the Cadtrak license is not assumable and assignable in bankruptcy under 11 U.S.C. § 365(c)." 89 F.3d at 680.

Pasteur therefore submits that a straightforward application of § 365(c) and the rationale of CFLC to the case at bar compels the conclusion that the cross-licenses between Pasteur and CBC are neither assumable nor assignable. This Court cannot agree that such a result is mandated here, however, inasmuch as the First Circuit Court of Appeals has provided relevant guidance with respect to the statutory interpretation and application of 365(c).

B. The First Circuit Court of Appeals' Application of the Exception

In the recent case of Summit Investment and Development Corp. v. Leroux, 69 F.3d 608 (lst Cir. 1995), the First Circuit specifically addressed and applied 11 U.S.C. § 365(e)(2)(A). That subsection is one of two express exceptions to the general ban of ipso facto provisions found in § 365(e)(1) of the Bankruptcy Code.[8] Noting that the language of § 365(e)(2)(A) closely tracks that of § 365(c)(1) and that both subsections address interrelated concerns, the First Circuit observed that "[a] proper construction of § 365(e)(2)(A) requires consideration of companion section 365

[8] The ipso facto provision at issue in Leroux purported to convert a general partner's interest in a limited partnership into a limited partnership interest upon the mere act of filing for bankruptcy.

(c) . . . ." 69 F.3d at 612.[9] The Court then noted that "it is . . . plausible to construe [§§ 365(e)(2)(A) and 365(c)(1)(A)] as requiring an actual showing . . . that the nondebtor party [ ] would not . . . be placed at the mercy of the debtor party by what amounts to an actual "assignment" of the debtor party's contract rights." Id. (emphasis in original).

Deeming the statutory language ambiguous, the Leroux Court proceeded to examine its legislative history, which commented that:

> [T]his section [i.e., § 365] will require the courts to be sensitive to the rights of the non-debtor party to executory contracts and unexpired leases. If the trustee is to assume a contract or lease, the court will have to ensure that the trustee's performance under the contract gives the other contracting party the full benefit of his bargain.

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[9] Section 365(e)(2)(A) provides that:

> Paragraph (1) of [§ 365(e)] does not apply to an executory contract . . . of the debtor, whether or not such contract . . . prohibits or restricts assignment of rights or delegation of duties, if--
>
> (A)(i) applicable law excuses a party, other than the debtor, to such contract . . . from accepting performance from or rendering performance to the trustee or to an assignee of such contract, . . . whether or not such contract . . . prohibits or restricts assignment or rights or delegation or duties; and
>
> (ii) such party does not consent to such assumption or assignment . . . .

11 U. S. C. § 365(e)(2)(A).

S.Rep. No. 989, 95th Cong., 2d Sess. 59 (1978) (quoted in Leroux, 69 F.3d at 612-13). The First Circuit then interpreted the legislative history as

> suggesting that Congress . . . contemplated a case-by-case inquiry into the actual consequences--to the non-debtor party--of permitting [ ] executory contracts to be performed by the debtor party following the institution of bankruptcy proceedings. In other words, where a debtor or debtor in possession bears the burden of performance under an executory contract, the nondebtor party to whom performance is due must make an individualized showing that it would not receive the "full benefit of its bargain" were an entity to be substituted for the debtor from whom performance is due.

Leroux, 69 F.3d at 613 (emphasis supplied).

In view of the foregoing, this Court interprets Leroux as requiring, in this Circuit, that the nondebtor party (i.e., Pasteur) make an "individualized showing" that it would not receive the full benefit of its bargain after the assumption of the patent license. The imposition of such a requirement conforms with logic inasmuch as a per se rule of non-assumability of an executory contract by debtors in possession would automatically extinguish the value of assets in the debtor's estate and divest them of the benefit of contracts they could retain outside of bankruptcy.[10] See NLRB v. Bildisco &

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10 Such a rule would have a particularly draconian effect here where it would cause the automatic termination of Pasteur's patent license to CBC but leave in tact CBC's cross patent license to Pasteur which was the consideration for the former.

Bildisco, 465 U.S. 513, 528 (1984) (a debtor in possession is "empowered by the Bankruptcy Code to deal with its contracts and property in a manner it could not have done absent the bankruptcy filing.").

Having determined that, by virtue of the holding in Leroux, Pasteur bears the burden of making an "individualized showing" that it will be deprived of the benefit of its bargain (see 69 F.3d at 613), this Court next considers whether the Bankruptcy Court erred in concluding that the cross-licenses may be assumed by the Debtor. As a preliminary matter, it is noted that the Bankruptcy Court is best positioned to weigh all of the facts and evidence and to make the fact-sensitive determination of whether Pasteur bore its burden of showing that it would not receive the benefit of its bargain.

Upon this Court's review of the record, it appears that the only evidence offered by Pasteur at the confirmation hearing that it will not receive the benefit of its bargain under the Leroux standard was the affidavit of Isabelle Bressac ("Bressac"), Pasteur"s Director of Licensing. That affidavit states that Pasteur has already granted a limited license to bioMérieux with respect to the patents covered by the cross-licenses and speculates that bioMérieux might breach that agreement by acquiring stock in CBC. App. at 830-832.

Based upon that sparse evidence, this Court cannot conclude that the Bankruptcy Court clearly erred in determining that Pasteur failed to demonstrate that it would not obtain the benefit of its bargain with CBC. No evidence was adduced below to demonstrate that the cross-licenses depend in any manner upon the identity, size, skill or know-how of the parties. Indeed, the cross-licenses are apparently matters of mutual convenience because CBC and Pasteur each own certain patent rights that the other party needs to make and sell its own HIV test kits. Accordingly, this Court agrees

with the Bankruptcy Court's determination that "This is not the kind of unique relationship that poses problems . . . [T]his is a business relationship. It's not something in the category of a personal services contract." Transcript of Confirmation Hearing, App. at 1374.

C. Stock Sale or Disguised Assignment

Pasteur next argues that the Bankruptcy Court erred in ruling that the stock sale to bioMérieux in connection with the Plan of Reorganization is not a disguised or indirect assignment of the patent licenses. Pasteur contends that, by focusing on the substance, rather than the form, of the transaction, one is compelled to conclude that the stock sale in reality constitutes an assignment. The principal case relied upon by Pasteur in support of that argument is In re Alltech Plastics, Inc. , 5 U.S.P.Q.2d 1806 (Bankr. W.D. Tenn. 1987) ("Alltech II",), in which the Bankruptcy Court confronted the issue of:

> whether [a] plan [of reorganization] may be confirmed . . . when it provides for the transfer of all of the Debtor's stock to a new owner . . . and the only significant (if not only) asset is a patent license granted to the debtor by [the licensor], which objects to the confirmation of the plan.[11]

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[11] Alltech II was decided nine months after In re Alltech .Plastics, Inc., 71 B.R. 686 (Bankr. W.D. Tenn. 1987) ("Alltech I"), in which the Bankruptcy Court held that a Chapter 7 trustee could not, in exchange for $100,000, assume and assign a patent license. The debtor had been granted a license to use a patented procedure to manufacture plastic containers. Upon the filing of its Chapter 7 petition, debtor was approached by another company ("Fluoropak") with an offer to purchase the patent license rights. The patentee/licensor contested the proposal on the grounds that "patent law and 11 U.S.C. § 365(c) prohibit such a transfer and

In refusing to confirm the proposed plan, the Bankruptcy Court in Alltech II applied the federal rule--that patent licenses are personal and not assignable unless expressly made so--to the substance, rather than to the form, of the transaction before it. 5 U.S.P.Q.2d at 1812. The Alltech II Court thus concluded that "the transfer of (debtor's) patent license to the Principals of FluoroPak absent [the licensor's] consent would constitute a breach of the license agreement and infringement of the [patent holder's] rights. . . ." Id. at 1811. In reaching that conclusion, the Court noted that: 1) the debtor corporation was not operating and had no viable existence, 2) employed no employees, 3) had no equipment, and 4) had no corporate assets other than the lone patent license. Id. at 1811-12.

For several reasons, this Court concludes that Alltech II is inapposite to the case at bar. First, whereas the debtor corporation in that case was not operating and had no viable existence, employees, equipment, or corporate assets (other than the patent license), the situation in the case at bar is

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Fluoropak cannot provide adequate assurance of future performance." 71 B.R. at 687.

After reviewing the established federal common law rule that patent licenses are personal in nature and not assignable unless expressly made so, the Alltech I court concluded that:

> the Trustee in this instance does not have the power to assign the patent license absent consent from the licensor, for even subsection (f) [of § 365] excepts from its provisions the types of agreements contemplated by [§ 365(c)].

71 B.R. at 689.

Following the Bankruptcy Court's refusal to permit the Chapter 7 Trustee to assume and assign the patent license in Alltech I, the case was converted to a Chapter 11 bankruptcy. Pursuant to the proposed plan of reorganization, the debtor was to assume the patent license and then all shareholders in the debtor were to sell their stock to Fluoropak in exchange for $85,000.

dramatically different. Indeed, CDC is now and will continue to be after the stock sale a multi-million dollar business replete with manufacturing operations, at least 66 employees, inventory, equipment, and an array of intellectual property that includes over 38 technology licenses. See Affidavit of Brian Armstrong dated August 8, 1996 at ¶¶ 2-3.

Second, in contrast to Alltech II, in which the Bankruptcy Court expressed concern both that the proposed reorganization plan was an attempt to circumvent prior court orders denying outright assignment and that the plan was not proposed in good faith, Judge Queenan has found here that CBC is not in default of its obligations under the cross-licenses and that the Plan was proposed in good faith. Confirmation Order at ¶¶ 5, 26. Finally, the Alltech II Court itself suggested that the result it reached might be different in a case such as CBC's:

> The (situation in Alltech II] is factually distinguished from one where a reorganizing debtor, operating continuously and in good standing with its licensor, seeks to-approve the sale of its stock.

5 U.S.P.Q.2d at 1813; see also id. at 1810 ("[T]his attempted innovative rebirth of a corporate shell is not analogous to a sale of stock by an active corporation.").

In summary, in view of the clear differences between the situation in Alltech and the case at bar, this Court concludes that the Bankruptcy Court did not err in its determination that the stock sale contemplated by the Plan is not in reality a "veiled" assignment. To the contrary, the instant case involves the acquisition of the shares of a debtor company that will assume and retain patent licenses in connection with its ongoing business. Pursuant to those cross-licenses, Pasteur will continue to reap the benefit of its bargained-for access to

the Debtor's technology, as well as the receipt of royalties to be paid by CBC.

ORDER

For the foregoing reasons, the order of the Bankruptcy Court confirming the Plan of Reorganization of the Debtor, Cambridge Biotech Corporation, is AFFIRMED and Pasteur's appeal from that order is DISMISSED.

So Ordered.

/s/_____
Nathaniel M. Gorton
United States District Judge

DATED: September 27, 1996

Appendix D.

UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MASSACHUSETTS

In re:	) Chapter 11
CAMBRIDGE BIOTECH CORPORATION,	)
Debtor	) Case No. 94-43054-JFQ

FINDINGS OF FACT AND CONCLUSIONS OF LAW RELATING TO, AND ORDER UNDER 11 U.S.C. §1129(a) AND (b) CONFIRMING AMENDED (MAY 17, 1996 REORGANIZATION PLAN OF CAMBRIDGE BIOTECH CORPORATION AS FURTHER AMENDED AS OF MAY 20, 1996, AND AS MODIFIED UNDER U.S.C. § 1127 AS OF JULY 15, 1996

RECITALS

WHEREAS, Cambridge Biotech Corporation, debtor and debtor-in-possession ("CBC"), has filed with the Court the Amended (May 17, 1996) Reorganization Plan Of Cambridge Biotech Corporation As Further Amended As of May 20, 1996 (the "Plan"),[1] and the Disclosure Statement With Respect to

[1] All capitalized terms not otherwise defined in this Confirmation Order have the meanings ascribed to them in the Plan. References to the Plan in this Confirmation Order shall mean prior to July 15,1996, the Amended (May 17,1996) Reorganization Plan of Cambridge Biotech Corporation. As Further Amended as of May 20, 1996, and shall mean, on and after July 15, 1996, the Amended (May 17, 1996) Reorganization Plan of Cambridge Biotech Corporation As Further Amended as of May 20, 1996, and as modified by the modifications (the

Amended (May 17, 1996) Reorganization Plan Of Cambridge Biotech Corporation As Further Amended As Of May 20, 1996 (the "Disclosure Statement");

WHEREAS, on May 17, 1996, the Court entered an Order, as amended, that, among other things, (i) approved the Disclosure Statement in all respects, and (ii) approved the form of notice of the Confirmation hearing (scheduled by the Court for July 15, 1996), and established certain procedures for filing and service of objections to the Plan (the "Disclosure Statement Notice Order"); and

WHEREAS, the Disclosure Statement Notice Order and Disclosure Statement were transmitted on or before June 5, 1996 to all holders of Claims and Interests and other parties in interest in accordance with Bankruptcy Rule 3017(d) and the Disclosure Statement Notice Order, as set forth in the Declarations of Service By Mail (6) of Patricia Corbin, each dated June 6, 1996 and filed with the Court on June 14, 1996; and

WHEREAS, CBC filed the Declaration Of Edward L. Erb Certifying The Ballots Accepting And Rejecting The Debtor's Proposed Plan of Reorganization, attesting to the results of voting on the Plan (the "Voting Results Report"); and

WHEREAS, on July 15, 1996 CBC filed its Memorandum In Support Of Confirmation Of The Plan with supporting affidavits and reports, including the affidavits of Alison Taunton-Rigby, Stephen J. DiPalma, Fritz Casselman, and Brian Armstrong, and the Mehta and Isaly Report (collectively, the "Confirmation Supporting Materials"; and

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"Modifications) set forth in the Motion of Cambridge Biotech Corporation Pursuant to Section 1127 of the Bankruptcy Code and Fed. R. Bankr. P. 3019 for Approval of Modifications to Plan (the "Motion for Approval of Modifications").

WHEREAS, objections or purported objections to confirmation of the Plan (including objections to CBC's assumption, assumption and assignment, or rejection of certain executory contracts and unexpired leases) were filed by numerous parties; and

WHEREAS, on July 15, 1996 CBC filed its Motion For Approval of Modifications, seeking a determination that certain technical, non-substantive and other modifications to the Plan made under Section 1127(a) of the Bankruptcy Code did not require additional disclosure under Section 1125 of the Code or resolicitation of acceptances and rejections under Section 1126 of the Bankruptcy Code (the "Modifications Requires");

WHEREAS, pursuant to Section 1128(a) of the Bankruptcy Code, the Court held the Confirmation Hearing on July 15, 1996;

NOW, THEREFORE, based upon the Court's review of the documents previously filed with the Court including the Confirmation Supporting Materials, the Voting Results Report, and the Modifications Request; and upon all of the evidence proffered to, adduced at, memoranda and objections filed in connection with, and arguments of counsel made at the Confirmation Hearing, and after due deliberation thereon; and upon the entire record of this Chapter 11 case, as applicable:

FINDINGS OF FACT AND CONCLUSIONS OF LAW

IT IS HEREBY FOUND AND DETERMINED that[2]

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[2] Findings of fact shall be construed as conclusions of law and conclusions of law shall be construed as findings of fact when appropriate. See Fed. R. Bankr. P. 7052.

1. Core Proceeding (28 U.S.C. §157(b)(2)). Confirmation of the Plan is a core proceeding under 28 U.S.C. § 157(b)(2).

2. Transmittal and Mailing of Materials: Notice. The Disclosure Statement, the Plan, the Ballots, and the Disclosure Statement Notice Order were transmitted and served in accordance with the Court's Orders and the Bankruptcy Rules, and such transmittal and service were adequate and sufficient. Adequate and sufficient notice of the Confirmation Hearing and the other bar dates and hearings described in the Disclosure Statement Notice Order was given in compliance with the Bankruptcy Rules and this Court's Order, and no further notice is required.

3. Plan Compliance with Bankruptcy Code (11 U.S.C. §1129(a)(1). The Plan complies with the applicable provisions of the Bankruptcy Code, thereby satisfying Section 1129(a)(1) of the Bankruptcy Code.

a) Proper Classification (11 U.S.C. §1122, 1123 (a)(1)). The Plan designates five (5) Classes of Claims and one (1) Class of Interests. The Claims and Interests placed in each class are substantially similar to other Claims or Interests, as the case may be, in each such Class, and such classification is therefore consistent with Section 1122 of the Bankruptcy Code. Valid business and legal reasons exist for the various Classes of Claims and Interests created under the Plan, and such Classes do not unfairly discriminate between holders of Claims or Interests. Thus, the Plan satisfies Section 1123(a)(1) of the Bankruptcy Code.

b) Specified Treatment of Unimpaired Classes (11 U.S.C. §1123(a)(2)). the Plan specifies that Classes 1 and 3 are not impaired under the Plan, thereby satisfying Section 1123(a)(2) of the Bankruptcy Code.

c) Specified Treatment of Impaired Classes (11 U.S.C. §1123(a)(3)). Sections III.C (Impaired Claims) and

III.D (Impaired Interests) of the Plan specify the treatment of impaired Classes 2.01, 4, 5 and 6, thereby satisfying Section 1123(a)(3) of the Bankruptcy Code.

d) No Discrimination (11 U.S.C. §1123(a)(4)). The Plan provides for the same treatment for each Claim or Interest in each respective Class unless the holder of a particular Claim or Interest has agreed to a less favorable treatment of such Claim or Interest, thereby satisfying Section 1123(a)(4) of the Bankruptcy Code.

e) Implementation of the Plan (11 U.S.C. §1123(a)(5)). Article IV of the Plan provides adequate and proper means for implementation of the Plan, thereby satisfying Section 1123(a)(5) of the Bankruptcy Code. Among other things, Article IV provides for:

i) CBC's sale of the Enterics Business, free and clear of liens, encumbrances, Claims and Interests prior to the Confirmation Date. (On June 19, 1996, the Court approved such a sale to Meridian Diagnostics, Inc. for approximately $5,700,000.00 in cash, which sale closed on June 24, 1996).

ii) CBC's organization of Aquila under Delaware law, with New Common Stock (5,000,000 shares) and related Rights to be issued by Aquila and delivered to the Disbursing Agent on the Consummation Date in exchange for all Interests in CBC and certain Claims against CBC, with CBC to issue 100 shares of CBC Common Stock to Aquila in exchange for those Interests, thereby becoming a wholly-owned subsidiary of Aquila.

iii) The distribution of the assets of Biopharmaceutical Business to Aquila as the sole stockholder of CBC on the Consummation Date.

iv) Immediately after giving effect to these transactions, Aquila's sale of all the issued and outstanding stock of CBC (including the Retroviral Business) to bioMérieux Vitek, Inc. ("bioMérieux") for $6,500,000.00 in cash.

v) A Rights Offering. Each share of Aquila New Common Stock distributed pursuant to the Plan on account of an Allowed Class 4 or Class 5 Claim, an Allowed Class 6 Interest or a Postpetition Incentive Stock Claim shall carry with it a transferable right (a "Right"). Each Right entitles the holder to purchase one (1) Unit, each Unit consisting of one share of New Common Stock and one warrant to purchase one (1) share of New Common Stock (a "Warrant"). In addition, each holder of a Right (or beneficial owner in the case of securities held in street name) who has fully exercised his basic right to purchase one Unit for each Right received (an "Eligible Rights Holder") also will have the right to purchase any desired number of Units that have not been subscribed for by the holders of other Rights (the "Oversubscription Rights"), subject to proration if oversubscribed. The Unit subscription price under the Rights will be a dollar amount of less than 100% of the Reorganization Value, as determined by Aquila. However, Aquila reserves the right to reduce the subscription price for the Units in certain circumstances.

f) Nonvoting Equity Securities: Appropriate Distribution of Voting Power (11 U.S.C. §1123(a)(6)). Pursuant to the Plan, Aquila's Certificate of Incorporation prohibits the issuance of nonvoting equity securities. The holders of shares of New Common Stock, after the Consummation Date, will vote as a single class on the basis of

one vote per share of New Common Stock. Section 1123(a)(6) of the Bankruptcy Code is thereby satisfied.

g) Selection Of Officers And Directors (11 U.S.C. §1123(a)(7)). The provisions of the Plan and Aquila's Certificate of Incorporation and Bylaws regarding the manner of selection of officers and directors of Aquila are consistent with the interests of creditors and equity security holders and with public policy, thereby satisfying Section 1123(a)(7) of the Bankruptcy Code.

4. CBC's Compliance With The Bankruptcy Code (11 U.S.C. §1129(a)(2)). CBC has complied with the applicable provisions of the Bankruptcy Code, thereby satisfying Section 1129(a)(2) of the Bankrtupcy Code. Specifically:

a) CBC is a corporation organized under the laws of the State of Delaware, and is a proper debtor under Section 109 of the Bankruptcy Code.

b) On July 7, 1994, CBC filed a Chapter 11 petition pursuant to Section 301 of the Bankruptcy Code.

c) the Court has jurisdiction over this Chapter 11 case pursuant to 28 U.S.C. §1334.

d) Venue of this case is proper in this district pursuant to 28 U.S.C. §1408.

e) CBC is a proper proponent of the Plan pursuant to Section 1121(a) of the Bankruptcy Code.

f) CBC has acted in accordance with all orders of the Court entered during the Chapter 11 Case.

g) CBC has complied with the applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, and the Disclosure Statement Notice Order in transmitting the Plan, Disclosure Statement, Ballots and related documents and notices and in soliciting and tabulating votes on the Plan.

5. Plan Proposed In Good Faith (11 U.S.C. §1129(a)(3)). CBC has proposed the Plan in good faith and not by any

means forbidden by law, thereby satisfying Section 1129(a)(3) of the Bankruptcy Code.

6. Payments For Services Or Costs And Expenses (11 U.S.C. §1129(a)(4)). Any payment made or to be made by CBC for services or for costs and expenses in or in connection with the Chapter 11 Case, or in connection with the Plan and incident to the Chapter 11 Case, has been approved by, or is subject to the approval of, the Court as reasonable, thereby satisfying Section 1129(a)(4) of the Bankruptcy Code.

7. Directors, Officers, and Insiders (11 U.S.C. §1129(a)(5)). CBC has complied with Section 1129(a)(5) of the Bankruptcy Code. Specifically:

a) To the extent known at this time, CBC has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the Plan, as a director or officer of Aquila and the appointment to, or continuance in, such office of such individual is consistent with the interests of creditors and equity security holders and with public policy.

b) To the extent known at this time, CBC has disclosed the identity of any insider who will be employed or retained by Aquila and the nature of such person's compensation, to the extent known.

c) The members of the initial board of directors of Aquila shall be the following:

Class I Directors:

John Nelson
Elliott Hillback

Class II Director:

Alison Taunton-Rigby

Class III Directors:

Jeffrey Beaver
Keith Dorrington

8. No Rate Changes (11 U.S.C. §1129(a)(6)). No governmental regulatory commission has jurisdiction over the rates charged by CBC. Thus, the Plan does not provide for the change in any rates which require regulatory approval, thereby satisfying Section 1129(a)(6) of the Bankruptcy Code.

9. Best Interests Of Creditors Test (11 U.S.C. §1129(a)(7)). The Plan satisfies Section 1129(a)(7) of the Bankruptcy Code. Specifically:

a) The methodology used and assumptions made in connection with the liquidation analysis contained in the Disclosure Statement and the Confirmation Supporting Materials are reasonable.

b) Each holder of a Claim or holder of an Interest in each impaired Class either has accepted the Plan or will likely receive or retain under the Plan on account of such Claim or Interest property of a value, as of the effective date of the Plan, that is not less than the amount that such holder would receive or retain if CBC were liquidated under Chapter 7 of the Bankruptcy Code on such date. No Class has made an election under Section 1111(b)(2) of the Bankruptcy Code.

10. Acceptance By Certain Classes (11 U.S.C. §1129(a)(8)). Except as set forth in paragraph 16 below, each Class of Claims or Interests has accepted the Plan or is not impaired under the Plan. Because not all impaired Classes of Claims and Interests have accepted the Plan, the requirements of Section 1129(a)(8) have not been met, thus requiring application of Section 1129(b) of the Bankruptcy Code.

11. Treatment Of Administrative And Tax Claims (11 U.S.C. §1129(a)(9)). The treatment of Administrative Claims and Other Priority Claims under Sections III.A.1 and III.B.1 of the Plan satisfies the requirements of Section 1129(a)(9)(A) and (B) of the Bankruptcy Code, and the treatment of Priority Tax Claims under Section III.A.2 of the Plan satisfies the requirements of Section 1129(a)(9)(C) of the Bankruptcy Code.

12. Acceptance By Impaired Classes (11 U.S.C. §1129(a)(10)). At least one Class of Claims (Class 2.01) that is impaired under the Plan has accepted the Plan, determined without including any acceptance of the Plan by any insider of CBC holding a Claim in such Class, thereby satisfying Section 1129(a)(10) of the Bankruptcy Code.

13. Feasibility (11 U.S.C. §1129(a)(11)). Reasonable prospects exist that Aquila will achieve financial stability and success. Consequently, confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganizations of Aquila, thereby satisfying Section 1129(a)(11) of the Bankruptcy Code.

14. Payment Of Fees (11 U.S.C. §1129(a)(12)). All fees payable under 28 U.S.C. §1930 have been paid or will be paid as Administrative Claims on the Consummation Date pursuant to Section III.A.1 of the Plan, thereby satisfying Section 1129(a)(12) of the Bankruptcy Code.

15. Continuation Of Retiree Benefits (11 U.S.C. §1129(a)(13)). Because CBC does not have any qualifying plan, fund or program, Section 1129(a)(13) of the Bankruptcy Code is satisfied.

16. Fair And Equitable: No Unfair Discrimination (11 U.S.C. §1129(b)). Class 4 (General Unsecured Claims Exceeding $500.00) is an impaired Class of Unsecured Claims. Pursuant to Section 1129(b) of the Bankruptcy Code,

the Court finds that the Plan does not discriminate unfairly, and is fair and equitable, with respect ot Class 4 Claims. Specifically, the Plan provides that each holder of an Allowed Class 4 Claim is entitled to receive, as of the Consummation Date, Aquila New Common Stock of a value equal to its Allowed Class 4 Claim.

Thus, the Plan satisfies Section 1129(b) as to Class 4 as described above. No other impaired Class has not accepted the Plan.

17. Principal Purpose Of Plan (U.S.C. §1129(d)). The principal purpose of the Plan is not the avoidance of taxes or the avoidance of the application of Section 5 of the Securities Act of 1933, and no governmental unit has objected to confirmation of the Plan.

18. Settlement of Securities Class Action. As described in Article XIII of the Plan, the Securities Class Settlement Agreements are, in all respects, fair and reasonable and in the best interests of CBC, its Estate, and its creditors and equity security holders, considering the potential costs of litigation and the uncertainty of the outcome of such disputes. In connection therewith, to the extent that, in reliance on the Securities Class Settlement Agreements, the law firms Rabin & Garland and/or Shapiro, Grace, Haber & Urmy, counsel to the Securities Class Plaintiffs, filed a complaint commencing Cambridge Biotech Corp. v. Deloitte & Touche (C.A. No. 96-1480-A, Suffolk Superior Court), such action was appropriate as to CBC.

19. Objections. All objections to confirmation filed with this Court have been withdrawn or settled, or have been and/or hereby are overruled.

20. Modifications. The modifications of the Plan set forth in the Modifications Request do not materially adversely affect any creditor, equity security holder, or other party in

interest. As such, under Bankruptcy Rule 3019, these modifications do not require additional disclosure under Section 1125 of the Bankruptcy Code or resolicitation of acceptances or rejections of the Plan under Section 1126 of the Bankruptcy Code, nor do they require that holders of Claims or Interests be afforded an opportunity to change previously cast acceptances or rejections of the Plan, and the Plan (including such modifications) is deemed accepted by all creditors and equity security holders who previously accepted the Plan.

21. Good Faith Solicitation (11 U.S.C. §1125(e)). Solicitation of acceptances of the Plan and participation in the offer, issuance and sale of the New Common Stock Rights under the Plan by CBC, Aquila, the Creditors Committee, the Equity Committee, and their respective agents, attorneys and advisors has been in good faith and in compliance with the applicable provisions of the Bankruptcy Code.

22. Retroviral Sale Negotiated In Good Faith. the Retroviral Sale in all respects was negotiated in good faith and at arm's length between CBC, Aquila and bioMérieux Vitek, Inc. and, upon consummation of such sale, bioMérieux shall be deemed to have purchased in good faith.

23. Transfers Of Property. The transfers of property by CBC to Aquila and the revesting of property in Reorganized CBC to take place on the Consummation Date (I) are legal, valid and effective transfers of property, (ii) vest Reorganized CBC and Aquila with good title to such property free and clear of all liens, charges, Claims, encumbrances, or Interests, except as expressly provided in the Plan or this Confirmation Order, (iii) do not constitute avoidable transfers under the Bankruptcy Code or under applicable nonbankruptcy law, and (iv) do not and shall not subject Reorganized CBC or Aquila to any liability by reason of such transfers under the

Bankruptcy Code or under applicable nonbankruptcy law, including, without limitation, any laws affecting successor or transferee liability.

24. No Liquidation. The Plan does not provide for the liquidation of all or substantially all of the property of CBC.

25. Business Judgment As To Executory Contracts. The assumption, rejection and assignment of executory contracts and unexpired leases as proposed under the Plan is based on CBC's reasonable business judgment.

26. Assumed Executory Contracts. As to all executory contracts and unexpired leases set forth on Exhibit G to the Plan, there are no defaults or breaches by CBC, or if such defaults or breaches exist, CBC, as of the Confirmation Date, has (a) cured, or provided adequate assurance that any such default or breach shall be promptly cured, (b) compensated, or provided adequate assurance that it will promptly compensate the non-debtor party for any actual pecuniary loss to such non-debtor party resulting from such default or breach, and (c) provided adequate assurance of future performance under such contract or lease. The amount required to cure shall be as set forth on Exhibit G to the Plan except as otherwise provided herein.

27. Assigned Executory Contracts. As to all executory contracts and unexpired leases set forth on Exhibit I to the Plan, such contracts or leases are being assumed under the Plan, and Aquila, the proposed assignee, has provided adequate assurance of future performance under the contract or lease.

28. Code §1145 Exemption. Except with respect to an entity which is an underwriter as defined in Section 1145(b) of the Bankruptcy Code, the New Common Stock and Rights (including the shares of New Common Stock issuable upon exercise of the Rights, the Warrants, and shares of New

Common Stock issuable upon exercise of the Warrants) to be issued under the Plan are exempt from registration under the Securities Act of 1933, pursuant to Section 1145 of the Bankruptcy Code.

29. Issuance of New Common Stock and Rights. The New Common Stock and the Rights are being issued principally in exchange for Claims against or Interests in CBC, or for an Administrative Expense as provided in Section 1145(a)(1) of the Bankruptcy Code.

30. Reorganization Value. The Reorganization Value, meaning the estimated value per share of the New Common Stock to be issued on the Consummation Date, after giving effect to the transactions contemplated to occur under the Plan on or prior to the Consummation Date, is $9.50.

DECREES

NOW, THEREFORE, IT IS HEREBY ORDERED THAT,

31. Confirmation. The Plan, a copy of which is attached hereto as Exhibit A (with the Modifications Request), is hereby confirmed, and all acceptances and rejections previously cast for or against the Plan are hereby deemed to constitute acceptances or rejections of the Plan as modified by this Order and the Modifications, and all parties in interest are authorized and empowered or enjoined, as the case may be to act in accordance with its terms.

32. Objections. Each of the objections (including objections to CBC's assumption, assumption and assignment, or rejection of executory contracts or unexpired leases) to confirmation of the Plan, which has not been withdrawn, waived, or settled, and all reservations of rights included therein, are overruled, except as specifically set

forth herein. To the extent that pleadings filed by individuals or entities constitute objections to confirmation of the Plan have not been withdrawn, waived, or settled, they are overruled.

33. Provisions Of Plan And Order Nonseverable And Mutually Dependent. The provisions of the Plan and this Confirmation Order, including the findings of fact and conclusions of law set forth herein, are nonseverable and mutually dependent.

34. Executory Contracts And Unexpired Leases. Except with respect to the so-called Schedule H License as described in subparagraph (c) below, assumption, rejection and assignment of executory contracts and unexpired leases as proposed by CBC under the Plan is hereby approved. All executory contracts or unexpired leases as assumed by CBC during the Chapter 11 Case or under the Plan shall remain in full force and effect for the benefit of Reorganized CBC, except to the extent assigned to Aquila, in which case they shall remain in full force and effect for Aquila's benefit, notwithstanding any provision in such executory contract or unexpired lease (including those described in Sections 365(b)(2) and (f) of the Bankruptcy Code) which prohibits such assignment or transfer or that enables or requires termination of such executory contract or unexpired lease.

a) Alfa Laval. Alfa Laval Agri AB's motions to compel compulsory arbitration, to stay CBC's omnibus objection to allowance of claims as it pertains to Alfa Laval's claim and to defer portions of the Plan are denied. Alfa Laval's objections to assumption and assignment of executory contract and confirmation of the Plan are overruled. Specifically, the Court finds that arbitration here would interfere with and impair CBC's reorganization. A one-day evidentiary hearing on the amount, if any, which

CBC must pay to Cure monetory defaults (which are found to be the only defaults to be cured) under the Alfa Laval executory contract(s) will be held on October 28, 1996 at 9:00 a.m. The amount in controversy is limited to $700,000.00.

b) Cottingham. Hugh V. Cottingham's objection to assumption of executory contract and confirmation of the Plan are overruled. A one-half day evidentiary hearing on the amount, if any, which CBC must pay to Cure monetary defaults (which are found to be the only defaults to be cured) under the Cottingham executory contract(s) will be held on September 24, 1996 at 2:00 p.m. The amount in controversy is limited to $352,516.00.

c) Behring. CBC is hereby authorized to reject the Syva Company Cambridge Biotech Corporation Development and Supply Agreement dated June 29, 1992 (the "Tom Patent License") attached as Schedule J to the D/S Agreement.

The Debtor may not assume the License Agreement dated June 29, 1992 attached as Schedule H (the "Schedule H License") to the D/S Agreement. Accordingly, the Schedule H License is deemed rejected as part of the D/S Agreement.

The Debtor's rejection of the D/S Agreement effects a rejection of the Schedule H License and all terms of the D/S Agreement, including, without limitation, Section 3.7 of the D/S Agreement.

Whether any Claim arising from the rejection of the Schedule H License is subsumed within the Claim previously determined with respect to the rejection of the D/S Agreement is not determined by this Order.

There are no license rights under Section 3.7 of the D/S Agreement that Behring may elect to retain under Seection 365(n)(1)(B) of the Bankruptcy Code.

Behring's other objections to the treatment of its executory contracts under the Plan, and its objections to confirmation of the Plan are overruled.

The Debtor shall reserve Cash in the amount of 51% of $1,000,000.00 in the Distribution Reserve on account of Behring's Disputed Claim.

d) OT/BN. The objections of OT/BN to assumption and assignment of executory contract(s) and confirmation were withdrawn pursuant to a stipulation filed with the Court at the Confirmation Hearing. The assumption and assignment of the OT/BN executory contract(s), as proposed in the Plan, are approved.

e) Harvard. The objection of the President and Fellows of Harvard College was withdrawn pursuant to a stipulation, the terms of which were reported by counsel for the parties at the Confirmation Hearing. The amount which CBC must pay to Cure monetary defaults (which are agreed to be the only defaults required to be cured) is $241,654.11, plus an amount to be agreed by the parties in good faith with respect to so-called "Reference Lab Sales" as set forth in a letter dated July 12, 1996 from Dr. Tonequzzo of Harvard to Stephen DiPalma of CBC. The assumption of the Harvard executory contract(s), as proposed in the Plan, is approved, and Harvard has further agreed that CBC may grant sublicenses to Aquila for vaccine, therapeutic, and related research use fields of use only, with the right to sublicense, as provided in the Retroviral Business Purchase Agreement.

f) Deloitte & Touche. The Objection to confirmation of Deloitte & Touche is overruled.

g) Selfcare. The limited objection to assumption of executory contract(s) of Selfcare, Inc. is overruled. The assumption of the Selfcare, Inc. executory contract(s), as proposed in the Plan, is approved.

h) DP. The assumption of the Royalty-Free Cross-License Agreement and the Royalty-Bearing Cross-License Agreement, each dated October 25, 1989, between the Debtor and Diagnostics Pasteur (now, Pasteur Sanofi Diagnostics ("PSD")) (together, the "DP-CBC Agreements"), as proposed in the Plan, is approved.

The objections of PSD and Institut Pasteur ("IP") to confirmation of the Plan and to the assumption of the DP-CBC Agreements are overruled. In that connection, the Court concludes that (1) there is no "assignment" of the DP-CBC Agreements within the meaning of Section 365(f) of the Bankruptcy Code effected by the assumption of such agreements as proposed under the Plan; (2) to the extent that the stock sale to bioMérieux is considered to give rise to an "assignment" of the DP-CBC Agreements, Section 365(f) of the Bankruptcy Code permits the assignment; (3) the cited cases holding that patent licenses are non-assignable constitute applicable law prohibiting, restricting or conditioning assignment that is overridden by Section 365(f) of the Bankruptcy Code; (4) Section 365(c) of the Bankruptcy Code does not preclude assumption or assignment of the DP-CBC Agreements as the agreements represent a business transaction that does not evidence a unique relationship between PSD and CBC; and (5) CBC and bioMérieux have provided adequate assurance of future performance of the DP-CBC Agreements.

I) F. Casselman. The objection of Frederick V. Casselman to assumption of executory contract was withdrawn. The assumption and assignment of the F.

Casselman executory contract, as proposed in the Plan, is approved.

j) Sienna Biotech. The objection of Sienna Biotech, Inc. ("Sienna") to assumption and assignment of executory contract was withdrawn. As agreed between the parties, CBC will assume and assign to Aquila the confidentiality rights provided in the November 12, 1992 Option Agreement between Sienna and CBC, but will not assume or assign the option rights provided therein.

k) WBDC. The objection of Worcester Business Development Corporation ("WBDC") to assumption and assignment of unexpired lease was withdrawn. As agreed between the parties, CBC will cure any and all defaults under the unexpired lease with WBDC by paying $205,000.00 to WBDC. The assumption and assignment of this unexpired lease, as proposed in the Plan, is approved.

l) U.S. Trustee. The objection to confirmation of the United States Trustee, as raised in the Confirmation Hearing, is overruled.

35. Discharge And Injunction.

a) Except as expressly provided in the Plan, and subject to the occurrence of the Consummation Date, CBC is discharged and released effective on the Confirmation Date (i.e., the date of the Order) from any "debt" (as that term is defined in Section 101(12) of the Bankruptcy Code), and CBC's liability in respect thereof is extinguished completely, whether such debt was reduced to judgment, liquidated or unliquidated, contingent or noncontingent, asserted or unasserted, fixed or unfixed, matured or unmatured, disputed or undisputed, legal or equitable, or known or unknown, or arising from any agreement of CBC that has either been assumed or rejected in the Chapter 11 Case or pursuant to the Plan, and CBC is further discharged and released effective on

the Confirmation Date from any debts incurred before the Confirmation Date or from any conduct of CBC prior to the Confirmation Date, or that otherwise arose before the Confirmation Date, including, without limitation, all interest, if any, on any such debts, whether such interest accured before or after the Petition Date. Except as provided in the Plan, any judgment at any time obtained, to the extent that such judgment is a determination of personal liability of CBC with respect to any debt discharged hereunder, is hereby rendered null and void.

b) The commencement or continuation of any action or the employment of process with respect to any debt discharged hereunder, or the assertion of any default under an executory contract or unexpired lease in contravention of Decretal Paragraph 34 hereof, or any act to collect, recover, or offset any debt discharged hereunder as a personal liability of CBC or from properties of CBC shall be, and hereby are, forever enjoined.

36. Termination of Interests. Except as expressly provided in the Plan, all Interests are terminated effective upon the Consummation Date.

37. Rule 9019(a) Settlement. The Securities Class Settlement Agreements are approved. In approving the settlement embodied therein as fair and reasonable, the Court has considered, among other things, the likelihood that the Securities Class Claims could successfully be asserted, and the amount thereof, the effect of Section 510 of the Bankruptcy Code on such Claims, that General Unsecured Claims are being paid in full, that many holders of Class 6 Old Common Stock Interests may also be holders of Class 5 Securities Class Claims, and the view of the Equity Committee. The settlement has facilitated the creation and implementation of

the Plan and benefits CBC, its Estate, creditors and equity security holders.

38. Approval Of Initial Officers, Directors. Pursuant to Section 1129(a)(5)(A)(ii) of the Bankruptcy Code, this Court approves as consistent with the interests of creditors and equity security holders and with public policy the selection and election of (a) the individuals set forth in paragraph 7c hereof as directors of Aquila as of the Consummation Date, and (b) the individuals set forth in Section VII.F of the Disclosure Statement as executive officers of Aquila as of the Consummation Date, in each case with any resignations that may have occurred to date. Without further event or action by any Person (other than the occurrence of the Consummation Date), each of the individuals referred to above shall become a director or officer, as the case may be, of Aquila, as of the Consummation Date. Nothing set forth herein shall prevent any of the foregoing individuals from resigning as an officer or director, as the case may be, without further Order of this Court. If a vacancy in the board of directors of Aquila occurs for any reason following the Confirmation Date, such vacancy shall be filled in accordance with the Aquila Certificate of Incorporation and Bylaws, as the case may be.

39. General Authorizations. CBC and/or Aquila are hereby authorized and empowered pursuant to Section 1142(b) of the Bankruptcy Code to:

a) Execute and deliver, and take such action as is necessary to effectuate the terms of, the instruments, securities, agreements, and documents in substantially the form of such instruments, securities, agreements, or documents attached as exhibits to the Plan or Disclosure Statement, or to be filed with this Court on or before the Consummation Date, including all annexes and exhibits attached to the foregoing; provided, however, that CBC and/or

Aquila may make such additional ministerial changes as CBC and/or Aquila's management deems necessary, without notice and a hearing under Section 1127(b) of the Bankruptcy Code or disclosure or resolicitation under Section 1127(c) of the Bankruptcy Code, as long as such changes do not materially affect the rights of any party in interest.

b) Execute and deliver such instruments and documents, and take such other action as may be necessary to effectuate the sale of the Retroviral Business contemplated by the Plan on or before the Consummation Date.

c) Issue, execute, deliver, file, and record any documents, court papers, or pleadings, and to take any and all actions as may be necessary or desirable to implement, effect, or consummate the transactions contemplated by the Plan whether or not specifically referred to in the Plan or related documents and without further application to or order of this Court.

d) Issue the securities and other instruments contemplated by the Plan, including the New Common Stock, the Rights, and the Warrants, all as described in Section IV.E and Article VI of the Plan.

e) File with the appropriate Secretaries of State the Certificate of Incorporation of Aquila (and any amendments thereto) and any qualification to do business as a foreign corporation.

f) Adopt the Bylaws of Aquila.

40. Authoriztions Relating to Retroviral Sale. CBC and Aquila are hereby authorized, empowered, and directed pursuant to Section 1142(b) of the Bankruptcy Code to consummate the sale of the Retroviral Business on substantially the terms described in the Disclosure Statement and the Plan.

41. Authorizations Under Delaware Law.

(a) Aquila and each of the officers of Aquila is authorized, empowered, and directed pursuant to Section 303 of the Delaware General Corporation Law, to take any and all actions necessary or desirable to implement the transactions contemplated and provided by the Plan, the Disclosure Statement, and this Confirmation Order as permitted by Delaware General Corporation Law, including, without limitation:

i) to constitute the board of directors of Aquila as contemplated and provided by Section IV.F of the Plan and paragraph 7(c) hereof;

ii) to constitute the officers of Aquila as contemplated and provided by Section IV.F of the Plan and Section VI.M of the Disclosure Statement;

iii) to amend the Aquila Certificate of Incorporation as contemplated and provided by the Plan; and

iv) to amend the Aquila Bylaws as contemplated and provided by the Plan.

(b) As provided in Section 303 of the Delaware General Corporation Law, each of the foregoing actions may be effected without further action of the directors or stockholders of Aquila.

42. Cancellation Of Old Common Stock. Effective as of the Record Date (i.e., the Consummation Date), the Old Common Stock shall be canceled and be deemed null and void Effective as of the Record Date, no further transfers of the Old Common Stock shall be recognized, and distributions on the Initial Distribution Date shall be made in accordance with the ownership records as of the close of business on the Record Date.

43. Exemption From Stamp Taxes. Pursuant to Section 1146(c) of the Bankruptcy Code, the issuance, transfer, or exchange of any security, or the making, delivery, filing, or

recording of any instrument of transfer under the Plan shall not be taxed under any law imposing a recording tax, stamp tax, transfer tax, or similar tax.

44. Payment of Administrative Claims. On the Consummation Date, Aquila shall pay in Cash (or as otherwise provided in the Plan) all Allowed Administrative Claims entitled to priority under Section 507(a)(1) of the Bankruptcy Code, unless the holder of such a Claim agrees or has agreed to different treatment, and Reorganized CBC shall have no liability for such Claims.

45. Retention Of Jurisdiction. This Court shall retain jurisdiction in accordance with the terms of Article XII of the Plan, the other provisions of this Confirmation Order, and Section 1142 of the Bankruptcy Code, including, without limiation, to hear and determine CBC's Motion Under 11 U.S.C. §363 For Approval Of Agreement For Sale Of Sublicense Rights And Amendment To Sublicense, filed on July 15, 1996, with respect to approval of an agreement between CBC and Abbott Laboratories.

46. Notice Of Entry Of Confirmation Order. In accordance with Bankruptcy Rules 2002 and 3020(c), on or within ten (10) days after the Consummation Date, Aquila (or its agents) shall give notice of the entry of this Confirmation Order (the "Notice of Confirmation"), by United States first class mail postage prepaid to (a) the United States Trustee, (b) counsel for the Official Committees appointed in this Chapter 11 case, (c) the Securities and Exchange Commission at Washington, D.C., (d) the District Director of Internal Revenue (Boston), (e) the United States Attorney for the District of Massachusetts, (f) the United States Secretary of the Treasury, (g) entities who objected to confirmation of the Plan, (h) entities who requested notices under Bankruptcy Rule 2002, (I) The First National Bank of Boston (as the

transfer agent or Rights Agent), (j) all holders of Allowed Claims or Disputed Claims, and (k) all holders of Old Common Stock of record as of the Consummation Date.

47. Sufficiency Of Notice Of Confirmation. Mailing of the Notice of Confirmation in the time and manner as set forth in the preceding paragraphs are adequate and satisfy the requirements of Bankruptcy Rules 2002 and 3020(c), and no further notice is necessary.

48. Stays. All requests for stays of this Order are denied.

49. Confirmation Hearing Findings and Conclusions. The Court's subsidiary findings and conclusions dictated into the record at the Confirmation Hearing are incorporated herein by reference.

Dated: Worcester, Massachusetts
July 18, 1996

/s/_____
The Honorable James F. Queenan, Jr.
United States Bankruptcy Judge

Appendix E.

Rev. 3 18/09/89

ROYALTY-FREE CROSS LICENSE AGREEMENT

Agreement made this 25th day of October 1989 by and between CAMBRIDGE BIOSCIENCE CORPORATION, a company organized under the laws of the State of Delaware (United States) with a principal place of business at 363 Plantation Street, Biotechnology Research Park, Worcester, Ma 01605, United States (hereinafter referred to as "CBC") and DIAGNOSTICS PASTEUR, a company (société anonyme) organized under the laws of France with a principal place of business at 3 Boulevard Raymond Poincaré, 92430 Marnes La Coquette, France (hereinafter referred to as "DP").

ARTICLE 1 - DEFINITIONS

1.1.- "Licensed Patents" shall mean those unexpired letters patent owned by or licensed to CBS or DP respectively as set forth in Exhibit A, B and C attached hereto and made a part of this Agreement, and any letters patent granted on the basis of the patent applications setforth in Exhibit A, B and C respectively or on the basis of any divisions, continuations, or continuations-in-part of any such applications and any reissue or extension of any such letters patent, and any confirmation patent, registration patent or patent of addition based on any such letters patent.

1.2. - "Licensed Products" shall mean diagnostic products in a finished form the manufacture, use and/or sale of which

would infringe a Valid Claim of Licensed Patents owned by the licensing party. The question whether a valid claim is infringed will be discussed by the parties in good faith if necessary.

A product in a "finished form" includes but is not limited to (I) a diagnostic kit or (ii) an aggregation of reagents formulated and packaged specifically for use with a designated instrument, which reagents include all reagents necessary to measure the target analyte but need not include reagents common to more than one test performed on the instrument (such as wash solution or diluent).

1.3. - "Valid Claim" shall mean a claim in a Licensed Patent which claim has not been disclaimed or held invalid in a non-appealed or unappealable final decision rendered by a court of competent jurisdiction.

1.4. - "Affiliated Company" shall mean an organization which controls or is controlled by a party or an organization which is under common control with a party hereto and/or an organization qualifying as above (control shall mean direct or indirect legal or beneficial ownership of 51 % or more of the voting stock). Unless the contrary is clearly indicated by the text hereof in every instance of this Agreement it is understood that reference to a party includes Affiliated Companies of such party as well. And that such party may extend to its Affiliated Companies the benefits of this Agreement so that such party shall remain responsible with regard all obligations placed upon such party by the basis of this Agreement. For the purposes of this Agreement, the parties confirm

that the companies SANOFI DIAGNOSTICS and DIAGNOSTIC TRANSFUSION, two companies within the SANOFI Group, shall be deemed to be Affiliated Companies of DP, as long as their relationship remain unchanged.

1.5. - "GSC Territory" shall mean the United States, Canada, Mexico, Australia, New Zealand and India.

ARTICLE 2 - LICENSE

2.1. - Both CBS and DP herewith grant to each other a perpetual non-exclusive license, without the right to sublicense, for the sole purpose of manufacturing, using and/or selling Licensed Products and/or for or on behalf of the licensee (CBS or DP as the case may be) having manufactured and/or used and/or under a distributorship agreement with a third party having sold Licensed Products, under their Licensed Patents as defined herein and as enclosed in Exhibit A and Exhibit B respectively, in the territory covered by those Licensed Patents and for the life of the related letters patent.

2.2. - The license granted to CBS by DP under paragraph 2.1. shall be automatically extended under the Licensed Patents as defined herein and as enclosed in Exhibit C upon recovery by DP from GENETIC SYSTEMS of the right to practice DP's letter patent included in Exhibit C, which DP shall use its best efforts to recover. DP represents that it is currently discussing such recovery with GENETIC SYSTEMS and will inform CBS with the progress and results of such discussions.

2.3. - The license granted to DP by CBS under paragraph 2.1. shall be automatically extended with the right to sublicense to GENETIC SYSTEMS for the GSC Territory upon extension of the license granted to CBS as set forth under paragraph 2.2., under the condition that DP waives its right under paragraph 4.2. of this Agreement so that such paragraph 4.2. shall be null and void as of the date of coming into force of this Agreement.

Notwithstanding the foregoing, CBS reserves the right to terminate any sublicense granted to GENETIC SYSTEMS forthwith by notice in writing to DP if control of GENETIC SYSTEMS and/or of such sublicense shall without the consent of CBS be acquired, directly or indirectly, by any person or group of connected persons or company not having such control at the date hereof, by reconstruction, amalgation, merger, acquisition of shares or assets or otherwise.

ARTICLE 3 - KNOW-HOW AND TESTS

3.1. - It is herewith agreed between the two parties that this Agreement does not include any exchange of know-how at all. It is furthermore agreed that either party shall develop its own testing, using its own formats and/or formats of third parties.

ARTICLE 4 - ROYALTY

4.1. - The cross-licensing set forth in Article 2 is the consideration for the reciprocal licenses and accordingly

the licenses granted under that Article 2 are fee-free and royalty-free.

4.2. - As sole exception to paragraph 4.1. and subject to paragraph 2.3., DP reserves the right exercisable at its sole discretion in compliance with the existing agreements between DP and GENETIC SYSTEMS at any time during the term of this Agreement by notice to CBS, to elect that a 6 % (six percent) royalty rate shall be substituted to the royalty-free terms set forth in paragraph 4.1. Should DP elect to exercize that right the 6 % royalty rate shall come in force, under the provisions described in Exhibit D, as of the beginning of a one year period prior to such election, but in no event prior to the date of coming into force of this Agreement.

ARTICLE 5 - WARRANTY AND PATENT POLICY

5.1. - Each party covenants, warrants and represents to the other party that it has and will have the full right and power to grant licenses to that other party as set forth in this Agreement.

5.2. - The parties agree that their respective rights to enforce their respective Licensed Patents against third parties shall be as follows:

5.2.1. In any country in which a party would, but for the license granted herein, be precluded from practicing its patent, the holder of the dominant patent shall have the sole right to determine whether and under what terms third party may make, use or sell Licensed Products subject to the provisions of paragraph 2.3.

5.2.2. In any country in which neither party's patent shall have issued or neither party's patent shall dominate the other's, each party shall be free to license its patents to third parties on such terms as it shall determine.

5.2.3. Any license or sublicense granted by a party to its patents shall be subject to section 5.2.1.

ARTICLE 6 - COMING INTO FORCE

6.1. - This Agreement has come in force and effect thirty days after the date first above written and shall exist until the expiration of the last to expire of the Licensed Patents.

6.2. - Each party hereby irrevocably waives its rights, including royalty payments, under its Licensed Patents as regards any manufacture, use or sale of Licensed Products performed by the other party before the effective date of this Agreement.

ARTICLE 7 - MISCELLANEOUS

7.1. - This Agreement is not assignable without the prior written consent of all the parties hereto and has been made solely for the benefit of the parties hereto, their respective successors and permitted assigns, and no other person shall acquire or have any right under or by virtue of this Agreement.

7.2. - This Agreement contains the entire understandings among the parties hereto with respect to the transactions contemplated herein, and no party shall be bound by, or

shall be deemed to have made, any representations and warranties except those contained in this Agreement.

7.3. - All notices, requests, reports, demands and other communications made or given under the terms of this Agreement or in connection herewith shall be in writing in English and shall be either personally delivered, transmitted by postage prepaid, registered or certified mail (air mail if international), or by telex, fax or cable (confirmed in writing by postage prepaid, registered or certified mail-air if international), and shall be addressed to the appropriate party at the address first set out above (Attention: President) or to such other address or place as such party may from time to time designate.

7.4. - Institut Pasteur and the President and Fellows of Harvard College, by executing this Agreement each hereby signifies its assent to the terms hereof and agrees to take no action intended frustrate the operation of this Agreement.

ARTICLE 8 - TERMINATION

Each party shall have the right to terminate this Agreement by registered letter to the other party by giving sixty (60) days notice in the event of a substantial breach of any of the articles of this Agreement provided, however, such breach is not rectified within sixty (60) days of receipt of the letter of termination.

ARTICLE 9 - APPLICABLE LAW AND JURISDICTION

This Agreement is governed by and construed in accordance with the laws of Commonwealth of Massachusetts (United States), without giving effect to the principles of conflicts of laws. Should any controversy exist or arise under the present Agreement, it is herewith agreed that the parties shall bring it before the courts in the country of the respective defendant.

In witness whereof the parties hereto have caused this Agreement to be duly executed as of the day and year above written.

CAMBRIDGE BIOSCIENCE CORPORATION

by: Patrick J. Leonard

title: Chief Operating Officer

For approval:

The President and Fellows of
HARVARD COLLEGE

by: Joyce Brinton, Director

title: Office for Patents Copyrights
and Licensing
Harvard University

DIAGNOSTICS PASTEUR

by: Christian POLICARD

title: Président Directeur
Général

For approval:

INSTITUT PASTEUR

by: Maxime SCHWARTZ

title: Directeur

EXHIBIT A

to the Royalty-Free Cross License Agreement
between CAMBRIDGE BIOSCIENCE CORPORATION and
DIAGNOSTIC PASTEUR

CBS's letters patent

The letters patent included in this Exhibit A are owned by the President and Fellows of Harvard College having offices at the Office for Patents, Copyrights and Licensing, University Place, 124 Mt. Auburn Street, Suite 256, CAMBRIDGE, Ma 02138 and licensed to CBS on an exclusive worldwide basis.

	country	patent application number	publication number
1 - GP 110/120	U.S.		
	U.S.	S.N. 056,134	4,725,669
	Canadian		1,247,082
	Europe	85905989.1	

EXHIBIT B

to the Royalty-Free Cross License Agreement between CAMBRIDGE BIOSCIENCE CORPORATION and DIAGNOSTICS PASTEUR

DP's letters patent

The letters patent included in this Exhibit B are owned by INSTITUT PASTEUR, a French foundation, having offices at 28 rue du Docteur Roux, 75015 PARIS, France and licensed to DP on an exclusive worldwide basis.

worldwide except
the Exclusive Territory of GENETIC SYSTEMS

country	patent application number	publication number
1 - GP 110/120		
France	84.16013	2.571.968
Argentina	301994	236441
Brazil		
Denmark	284986	
Europe:	85.905.513.9	
designating DE, AT, BE, FR, IT, LI, LU, NL, GB, SE, CH		
Greece	852522	852522
Ireland	238785	
Japan	50485385	
Korea (South)	86700374	

EXHIBIT B (continued)
to the Royalty-Free Cross License Agreement
between CAMBRIDGE BIOSCIENCE CORPORATION and
DIAGNOSTICS PASTEUR

country	patent application number	publication number
Portugal	81338	81338
Spain	548048	548048
	557357	557357
	557358	557358
Union of African Countries	58708	
Zaire	873.034	
South Africa	803495	

EXHIBIT C

to the Royalty-Free Cross License Agreement between CAMBRIDGE BIOSCIENCE CORPORATION and DIAGNOSTICS PASTEUR

DP's letters patent

The letters patent included in this Exhibit C are owned by INSTITUT PASTEUR, a French foundation, having offices at 28 rue du Docteur Roux, 75015 PARIS, France and licensed to DP on an exclusive worldwide basis and sublicensed to GENETIC SYSTEMS, a Delaware corporation (United States), 3005 First Avenue, Seattle, Washington, United States.

countries within
the Exclusive Territory of GENETIC SYSTEMS

country	patent application number	publication number
1 - GP 110/120		
Australia	5061785	
Canada	493377	
Mexico	34	
New Zealand	213889	
USA	158,652 CIP	
	771,248	
	273,635 CIP	

Appendix F.

Rev. 3 18/09/89

ROYALTY-BEARING CROSS LICENSE AGREEMENT

Agreement made this 25th day of October 1989 by and between CAMBRIDGE BIOSCIENCE CORPORATION, a company organized under the laws of the State of Delaware (United States) with a principal place of business at 365 Plantation Street, Biotechnology Research Park, Worcester, Ma 01605, United States (hereinafter referred to as "CBS") and DIAGNOSTICS PASTEUR, a company (société anonyme) organized under the laws of France with a principal place of business at 3 Boulevard Raymond Poincaré, 92430 Marnes La Coquette, France (hereinafter referred to as "DP").

ARTICLE 1 - DEFINITIONS

1.1.- "Licensed Patents" shall mean those unexpired letters patent owned by or licensed to CBS or DP respectively as set forth in Exhibit A, B and C attached hereto and made a part of this Agreement, and any letters patent granted on the basis of the patent applications setforth in Exhibit A, B and C respectively or on the basis of any divisions, continuations, or continuations-in-part of any such applications and any reissue or extension of any such letters patent, and any confirmation patent, registration patent or patent of addition based on any such letters patent.

1.2. - "Licensed Products" shall mean diagnostic products in a finished form the manufacture, use and/or sale of which

would infringe a Valid Claim of Licensed Patents owned by the licensing party. The question whether a valid claim is infringed will be discussed by the parties in good faith if necessary.

A product in a "finished form" includes but is not limited to (i) a diagnostic kit or (ii) an aggregation of reagents formulated and packaged specifically for use with a designated instrument, which reagents include all reagents necessary to measure the target analyte but need not include reagents common to more than one test performed on the instrument (such as wash solution or diluent).

1.3. - "Valid Claim" shall mean a claim in a Licensed Patent which claim has not been disclaimed or held invalid in a non-appealed or unappealable final decision rendered by a court of competent jurisdiction.

1.4. - "Affiliated Company" shall mean an organization which controls or is controlled by a party or an organization which is under common control with a party hereto and/or an organization qualifying as above (control shall mean direct or indirect legal or beneficial ownership of 51 % or more of the voting stock). Unless the contrary is clearly indicated by the text hereof in every instance of this Agreement it is understood that reference to a party includes Affiliated Companies of such party as well. And that such party may extend to its Affiliated Companies the benefits of this Agreement so that such party shall remain responsible with regard all obligations placed upon such party by the basis of this Agreement. For the purposes of this Agreement, the parties confirm

that the companies SANOFI DIAGNOSTICS and DIAGNOSTIC TRANSFUSION, two companies within the SANOFI Group, shall be deemed to be Affiliated Companies of DP, as long as their relationship remain unchanged.

1.5. - "Net Sales of Licensed Products" shall mean the adjusted gross invoice price less an amount of six percent (6 %) of said adjusted gross invoice price covering items such as customs duties, transportation costs, transportation insurance costs, agent's commission and the like. The adjusted gross invoice price shall means the gross invoice price billed less deductions of cash discounts, returns, withdrawals, recalls, sales rebates, price reductions, sales taxes and other taxes directly linked to the sale for example, excise taxes.

It is intended by the parties that the adjusted gross invoice price equals the gross invoice price less two percent (2 %) as an average figure.

Sales to Affiliated Company or between Affiliated Company shall not constitute Net Sales of Licensed Products until the Licensed Products are sold to parties who are not Affiliated Company at which time the revenues from sale shall constitute Net Sales of Licensed Products. Sales for purpose such as research, government or regulatory registration or clinical trials shall not constitute Net Sales of Licensed Products.

Distribution of Licensed Products to potential customers at no or nominal cost, in excess of reasonable quantities

customary for evaluation and sampling purposes, shall be included in Net Sales at fair market value.

ARTICLE 2 - LICENSE

2.1. - Both CBS and DP herewith grant to each other a perpetual non-exclusive license, without the right to sublicense, for the sole purpose of manufacturing, using and/or selling Licensed Products and/or for or on behalf of the licensee (CBS or DP as the case may be) having manufactured and/or used and/or under a distributorship agreement with a third party having sold Licensed Products, under their Licensed Patents as defined herein and as enclosed in Exhibit A and Exhibit B respectively, in the territory covered by those Licensed Patents and for the life of the related letters patent.

2.2. - The license granted to CBS by DP under paragraph 2.1. shall be automatically extended under the Licensed Patents as defined herein and as enclosed in Exhibit C upon recovery by DP from GENETIC SYSTEMS of the right to practice DP's letter patent included in Exhibit C, which DP shall use its best efforts to recover. DP represents that it is currently discussing such recovery with GENETIC SYSTEMS and will inform CBS with the progress and results of such discussions.

ARTICLE 3 - KNOW-HOW AND TESTS

3.1. - It is herewith agreed between the two parties that this Agreement does not include any exchange of know-how at all. It is furthermore agreed that either party shall develop its own tests.

3.2. - However the two parties agrees to negotiate in good faith, upon request of either party, the supply of the biological materials necessary to enable the manufacture of the Licensed Products, under usual terms and conditions, such to include (i) that neither party shall use the biological materials supplied by the other party on a microtiter procedure and (ii) an upfront fee.

ARTICLE 4 - ROYALTY

4.1. - It is herewith agreed that in consideration of the license granted to each other each licensee shall pay to the each licensor a royalty in the amount of 6 % on Net Sales of Licensed Products.

4.2. - Each party shall keep complete and accurate records of the sale of Licensed Products hereunder and, within sixty (60) days following each calendar quarter, shall render to the other party a written report for such period setting forth the Net Sales of Licensed Products and number of units of each type of Licensed Products sold pursuant to the license set forth in Article 2 hereof and listing the aggregate deductions, which were deducted to calculate Net Sales of Licensed Products, and setting forth the royalties accrued during such period.

4.3. - Each party shall have the right to nominate independent certified public accountants acceptable to and approved by the other party approval not to be unreasonably withheld, who shall have access to that other party's records during reasonable business hours for the purpose of verifying the royalties as provided for in this Agreement. In the event any such audit results in a

change upward in any royalty payment of as much as five percent (5 %) for any annual period, that other party shall pay the costs of such audit, otherwise such audit shall be at the first party's expenses.

ARTICLE 5 - PAYMENT

5.1. - Payment of royalties under this Agreement shall be made within sixty (60) days following every calendar quarter for royalties accrued during such period in accordance with Article 4.

5.2. - All payments under this Agreement shall be made by each party by wire bank transfer to the bank account designated by the other party as follows:

(i) The receiving party shall be responsible for obtaining all national exchange control approval to receive payments from such account designated by the receiving party.

(ii) All bank charges to effect payment to the receiving party are for the account of the paying party until transfer to the bank account designated by the receiving party.

5.3. - Payment shall be made in the national currency (the "Currency") of the paying party. For the purpose of this payment, net revenues included within Net Sales of Licensed Products which are in currencies other than the Currency shall be converted into the Currency at the average rate of exchange of such other currencies at the time when royalties are paid.

5.4. - No payment to be made by a party under this Article 5 may be set off against any payment to be made by the other party for any reason whatsoever, except by mutual agreement.

5.5. - If, by law, regulations, or fiscal policy of a particular country, payment as provided for above is restricted or forbidden, notice thereof in writing will be given to the licensor and payment of the royalty will be made through such lawful means or methods as the licensor designates. Failing the designation by the licensor of lawful means or methods as aforesaid within sixty (60) days after the aforementioned notice is given to the licensor, the payment of royalties by the licensee will be made by the deposit thereof in local currency to the credit of licensor in a recognized banking institution designated by the licensor or, if none be designated by the licensor within the period of sixty (60) days as aforesaid, in a recognized banking institution notified to the licensor by the licensee. When in any country the law or regulations prohibits both the transmittal and deposit of royalties on sales in that country, royalty payments will be suspended for as long as that prohibition is in effect, and as soon as the prohibition ceases to be in effect all royalties which the licensee would have been under obligation to transmit or deposit, but for the prohibition, will forthwith be promptly deposited or transmitted to the extent allowable, as the case may be.

5.6. - If a law or regulation requires withholding of any taxes on royalties, such taxes will be deducted by the paying party from such remittable royalty and will be paid by

such party to the proper taxing authority and proof of payment secured and sent to the receiving party as evidence of such payment. If between a country and any other place as designated, a treaty for the avoidance of double taxation is in force and such treaty reduces the withholding of any taxes otherwise due on royalties payable from such countries, the receiving party may request direct remittance of royalties at such place as the receiving party may designate hereunder.

ARTICLE 6 - WARRANTY

Each party covenants, warrants and represents to the other party that it has and will have the full right and power to grant licenses to that other party as set forth in this Agreement.

ARTICLE 7 - COMING INTO FORCE

7.1. - This Agreement has come in force and effect thirty days after the date first above written and shall exist until the expiration of the last to expire of the Licensed Patents.

7.2. - Each party hereby irrevocably waives its rights, including royalty payments, under its Licensed Patents as regards any manufacture, use or sale of Licensed Products performed by the other party before the effective date of this Agreement.

ARTICLE 8 - MISCELLANEOUS

8.1. - This Agreement is not assignable without the prior written consent of all the parties hereto and has been made solely for the benefit of the parties hereto, their

respective successors and permitted assigns, and no other person shall acquire or have any right under or by virtue of this Agreement.

8.2. - This Agreement contains the entire understandings among the parties hereto with respect to the transactions contemplated herein, and no party shall be bound by, or shall be deemed to have made, any representations and warranties except those contained in this Agreement.

8.3. - All notices, requests, reports, demands and other communications made or given under the terms of this Agreement or in connection herewith shall be in writing in English and shall be either personally delivered, transmitted by postage prepaid, registered or certified mail (air mail if international), or by telex, fax or cable (confirmed in writing by postage prepaid, registered or certified mail-air if international), and shall be addressed to the appropriate party at the address first set out above (Attention: President) or to such other address or place as such party may from time to time designate.

8.4. - Institut Pasteur and the President and Fellows of Harvard College, by executing this Agreement each hereby signifies its assent to the terms hereof and agrees to take no action intended frustrate the operation of this Agreement.

ARTICLE 9 - TERMINATION

Each party shall have the right to terminate this Agreement by registered letter to the other party by giving sixty (60) days notice in the event of a substantial breach of any of the articles

of this Agreement provided, however, such breach is not rectified within sixty (60) days of receipt of the letter of termination.

ARTICLE 10-APPLICABLE LAW AND JURISDICTION

This Agreement is governed by and construed in accordance with the laws of Commonwealth of Massachusetts (United States), without giving effect to the principles of conflicts of laws. Should any controversy exist or arise under the present Agreement, it is herewith agreed that the parties shall bring it before the courts in the country of the respective defendant.

In witness whereof the parties hereto have caused this Agreement to be duly executed as of the day and year above written.

CAMBRIDGE BIOSCIENCE CORPORATION

by: Patrick J. Leonard

title: Chief Operating Officer

For approval:

The President and Fellows of
HARVARD COLLEGE

by: Joyce Brinton, Director
title: Office for Patents Copyrights
and Licensing
Harvard University

DIAGNOSTICS PASTEUR

by: Christian POLICARD

title: Président Directeur
Général
For approval:

INSTITUT PASTEUR

by: Maxime SCHWARTZ
title: Directeur

EXHIBIT A

to the Royalty-Bearing Cross License Agreement between CAMBRIDGE BIOSCIENCE CORPORATION and DIAGNOSTIC PASTEUR

CBS's letters patent

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	country	patent application number	publication number
	U.S.		4,743,678
	U.S.	S.N. 131,201	
	Greek		82,409
	Israeli	71671	
	Italian		1,180,161
HTLV-1	Denmark	6199/84	
	Europe	84901861.9	
	Finland	845061	
	Ireland	1011/84	
	Japan	59-502043	
	Norway	845131	
	Canadian		1,245,979
P 27 (F)	U.S.	S.N. 795,997	
	U.S.	S.N. 250,309	
	Canadian	522,310	
	Japan	61-506084	
	European	86907120.9	

EXHIBIT B

to the Royalty-Bearing Cross License Agreement between CAMBRIDGE BIOSCIENCE CORPORATION and DIAGNOSTICS PASTEUR

DP's letters patent

This letters patent included in this Exhibit B are owned by INSTITUT PASTEUR, a French foundation, having offices at 28 rue du Docteur Roux, 75015 PARIS, France and licensed to DP on an exclusive worldwide basis.

worldwide except
the Exclusive Territory of GENETIC SYSTEMS

DP's letters patent (HIV-2)

country	patent application number	publication number
France	86,00910	
Argentina	306572	
Denmark	493487	
Europe: designating DE, AT, BE, ES, FR, GR, IT, LI, LU, NL, GB, SE, CH	87.400.151.4	
additional application (same designated states)	87.402.631.3	
divisional of EP	89.101.328.6	

EXHIBIT B (continued)
to the Royalty-Bearing Cross License Agreement
between CAMBRIDGE BIOSCIENCE CORPORATION and
DIAGNOSTICS PASTEUR

country	patent application number	publication number
37.400.151.4 (same designated states)		
Ireland	17487	
Japan	500920	
Korea (South)	87700858	
Portugal	84182	
Taiwan	76101494	
Union of African Countries	59050	8468
South Africa	870469	
France	86.00911	
France	86.01635	2.593.922
France	86.01985	2.594.220
France	86.03881	2.596.063
France	86.04215	

DP's letters patent (Nef, F or 3'CRF)

country	patent application number	publication number
France	86.08698	

EXHIBIT B (continued)
to the Royalty-Bearing Cross License Agreement
between CAMBRIDGE BIOSCIENCE CORPORATION and
DIAGNOSTICS PASTEUR

country	patent application number	publication number
Denmark	76688	
Europe: designating: DE, AT, BE, ES, FR, GR, IT, LI, LU, NL, GB, SE, CH	87.401.338.6	
Japan		
Korea (South)	88700169	
Portugal	85093	

EXHIBIT C

to the Royalty-Bearing Cross License Agreement between CAMBRIDGE BIOSCIENCE CORPORATION and DIAGNOSTICS PASTEUR

DP's letters patent

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countries within
the Exclusive Territory of GENETIC SYSTEMS

DP's letters patent (HIV-2)

country	patent application number	publication number
Australia	6891187	
Canada	529362	
Mexico	441	
New Zealand	219024	
USA	835,228	4,839,288
	933,184 CIP	
	150,645	
	143,070 DIV	
	194,151 DIV	
	273,060 DIV	

EXHIBIT C (continued)
to the Royalty-Bearing Cross License Agreement
between CAMBRIDGE BIOSCIENCE CORPORATION and
DIAGNOSTICS PASTEUR

DP's letters patent (Nef, F or 3'ORF)

country	patent application number	publication number
Australia	7514087	
Canada	539795	
USA	162,328	

EXHIBIT D

Provisions applicable to the 6 % royalty rate

ARTICLE D-1 - Royalty

D-1-1 It is herewith agreed that in consideration of the license granted to each other each license shall pay to the each licensor a royalty in the amount of 6 % on Net Sales of Licensed Products.

D-1-2 "Net Sales of Licensed Products" shall mean the adjusted gross invoice price less at amount of six percent (6%) of said adjusted gross invoice price covering items such as customs duties, transportation costs, transportation insurance costs, agent's commissions and the like. The adjusted gross invoice price shall mean the gross invoice price billed less deductions of cash discounts, returns, withdrawals, recalls, sales rebates, price reductions, sales taxes and other taxes directly linked to the sale, for example, excise taxes.

It is intended by the parties that the adjusted gross invoice price equals the gross invoice price less two percent (2%) as an average figure.

Sales to Affiliated Company or between Affiliated Company shall not constitute Net Sales of Licensed Products until the Licensed Products are sold to parties who are not Affiliated Company at which time the revenue from such sale shall constitute Net Sales of

Licensed Products. Sales for purposes such as research, government or regulatory registration or clinical trials shall not constitute Net Sales of Licensed Products.

Distribution of Licensed Products to potential customers at no or nominal cost, in excess of reasonable quantities customary for evaluation and sampling purposes, shall be included in Net Sales at fair market value.

ARTICLE D-2 - Records

D-2-1 Each party shall keep complete and accurate records of the sale of Licensed Products hereunder and, within sixty (60) days following each calendar quarter, shall render to the other party a written report for such period setting forth the Net Sales of Licensed Products and number of units of each type of Licensed Products sold pursuant to the license set forth in Article 2 hereof and listing the aggregate deductions, which were deducted to calculate Net Sales of Licensed Products, and setting forth the royalties accrued during such period.

D-2-2 Each party shall have the right to nominate independent certified public accountants acceptable to and approved by the other party approval not to be unreasonably withheld, who shall have access to that other party's records during reasonable business hours for the purpose of verifying the royalties as provided for in this Agreement.

In the event any such audit results in a change upward in any royalty payment of as much as five percent (5 %) for any annual period, the first party shall pay the cost of such audit, otherwise such audit shall be at the other party's expenses.

ARTICLE D-3 - Payment

D-3-1 Payment of royalties under this Agreement shall be made within sixty (60) days following every calendar quarter for royalties accrued during such period in accordance with Article D-1.

D-3-2 All payments under this Agreement shall be made by each party by wire bank transfer to the bank account designated by the other party as follows:

(i) The receiving party shall be responsible for obtaining all national exchange control approval to receive payments from such account designated by the receiving party.

(ii) All bank charges to effect payment to the receiving party are for the account of the paying party until transfer to the bank account designated by the receiving party.

D-3-3 Payment shall be made in the national currency (the "Currency") of the paying party. For the purpose of this payment, net revenues included within Net Sales of Licensed Products which are in currencies other than the Currency shall be converted into the Currency

at the average rate of exchange of such other currencies at the time when royalties are paid.

D-3-4 No payment to be made by a party under this Article D-3 may be set off against any payment to be made by the other party for any reason whatsoever, except by mutual agreement.

D-3-5 If, by law, regulations, or fiscal policy of a particular country, payment as provided for above is restricted or forbidden, notice thereof in writing will be given to the licensor and payment of the royalty will be made through such lawful means or methods as the licensor designates. Failing the designation by the licensor of lawful means or methods as aforesaid within sixty (60) days after the aforementioned notice is given to the licensor, the payment of royalties by the licensee will be made by the deposit thereof in local currency to the credit of licensor in a recognized banking institution designated by the licensor or, if none be designated by the licensor within the period of sixty (60) days as aforesaid, in a recognized banking institution notified to the licensor by the licensee. When in any country the law or regulations prohibits both the transmittal and deposit of royalties on sales in that country, royalty payments will be suspended for as long as that prohibition is in effect, and as soon as the prohibition ceases to be in effect all royalties which the licensee would have been under obligation to transmit or deposit, but for the prohibition, will forthwith be promptly deposited or transmitted to the extent allowable, as the case may be.

D-3-6 If a law or regulation requires withholding of any taxes on royalties, such taxes will be deducted by the paying party from such remittable royalty and will be paid by such party to the proper taxing authority and proof of payment secured and sent to the receiving party as evidence of such payment. If between a country and any other place as designated, a treaty for the avoidance of double taxation is in force and such treaty reduces the withholding of any taxes otherwise due on royalties payable from such countries, the receiving party may request direct remittance of royalties at such place as the receiving party may designate hereunder.

ARTICLE D-4 - Duration

Subject to the provisions of Article 6.2., the duration of the royalty payments hereunder shall correspond, on a country-by-country basis, to the life of the Licensed Patents covering the Licensed Products, from the first date of publication of any corresponding patent application.

Article D-5 - Termination

Each party shall have the right to terminate this Agreement by registered letter to the other party by giving sixty (60) days notice in the event of a substantial breach of any of the articles of this Agreement provided, however, such breach is not rectified within sixty (60) days of receipt of the letter of termination.

Appendix G.

11 USC § 365. Executory contracts and unexpired leases

(a) Except as provided in sections 765 and 766 of this title and in subsections (b), (c), and (d) of this section, the trustee, subject to, the court's approval, may assume or reject any executory contract or unexpired lease of the debtor.

(b)(1) If there has been a default in an executory contract or unexpired lease of the debtor, the trustee may not assume such contract or lease unless, at the time of assumption of such contract or lease, the trustee—

(A) cures, or provides adequate assurance that the trustee will promptly cure, such default;

(B) compensates, or provides adequate assurance that the trustee will promptly compensate, a party other than the debtor to such contract or lease, for any actual pecuniary loss to such party resulting from such default; and

(C) provides adequate assurance, of future performance under such contract or lease.

(2) Paragraph, (1) of this subsection does not apply to a default that is a breach of a provision relating to—

(A) the insolvency or financial condition of the debtor at any time before the closing of the case;

(B) the commencement of a case under this title;

(C) the appointment of or taking possession by a trustee in a case under this title or a custodian before such commencement; or

(D) the satisfaction of any penalty rate or provision relating to a default arising from any failure by the debtor to perform nonmonetary obligations under the executory contract or unexpired lease.

(3) For the purposes of paragraph (1) of this subsection and paragraph (2)(B) of subsection (f), adequate assurance of future performance of a lease of real property in a shopping center includes adequate assurance—

(A) of the source of rent and other consideration due under such lease, and in the case of an assignment, that the financial condition and operating performance of the proposed assignee and its guarantors, if any, shall be similar to the financial condition and operating performance of the debtor and its guarantors, if any, as of the time the debtor became the lessee under the lease;

(B) that any percentage rent due under such lease will not decline substantially;

(C) that assumption or assignment of such lease is subject to all the provisions thereof, including (but not limited to) provisions such as a radius, location, use, or exclusivity provision, and will not breach any such provision contained in any other lease, financing agreement, or master agreement relating to such shopping center; and

(D) that assumption or assignment of such lease will not disrupt any tenant mix or balance in such shopping center.

(4) Notwithstanding any other provision of this section, if there has been a default in an unexpired lease of the debtor, other than a default of a kind specified in paragraph (2) of this subsection, the trustee may not require a lessor to provide services or supplies incidental to such lease before assumption of such lease unless the lessor is compensated under the terms of such lease for any services and supplies provided under such lease before assumption of such lease.

(c) The trustee may not assume or assign any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if—

(1)(A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to an entity other than the debtor or the debtor in possession, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and

(B) such party does not consent to such assumption or assignment; or

(2) such contract is a contract to make a loan, or extend other debt financing or financial accommodations, to or for the benefit of the debtor, or to issue a security of the debtor; (3) such lease is of nonresidential real property and has been terminated under applicable nonbankruptcy law prior to the order for relief, or

(4) such lease is of nonresidential real property under which the debtor is the lessee of an aircraft terminal or aircraft gate at an airport at which the debtor is the lessee under one or more additional nonresidential leases of an aircraft terminal or aircraft gate and the trustee, in connection with such assumption or assignment, does not assume all such leases or does not assume and assign all of such leases to the same person, except that the trustee may assume or assign less than all of such leases with the airport operator's written consent.

(d)(1) In a case under chapter 7 of this title if the trustee does not assume or reject an executory contract or unexpired lease-of residential real property or of personal property of the debtor within 60 days after the order for relief, or within such additional time as the court, for cause, within such 60-day period, fixes, then such contract or lease is deemed rejected.

(2) In a case under chapter 9, 11, 12, or 13 of this title, the trustee may assume or reject an executory contract or unexpired lease of residential real property or of personal-property of the debtor at any time before the confirmation of a plan but the court, on the request of any party to such contract or lease, may order the trustee to determine within a specified period of time whether to assume or reject such contract or lease.

(3) The trustee shall timely perform all the obligations of the debtor, except those specified in section 365(b)(2), arising from and after the order for relief under any unexpired lease of nonresidential real property, until such lease is assumed or rejected, notwithstanding section 503(b)(1) of this title. The court may extend, for cause, the time for performance of any such obligation that arises within 60 days after the date of the order for relief, but the time for performance shall not be extended beyond such 60-day period. This subsection shall not be deemed to affect the trustee's obligations under the provisions of subsection (b) or (f) of this section. Acceptance of any such performance does not constitute waiver or relinquishment of the lessor's rights under such lease or under this title.

(4) Notwithstanding paragraphs (1) and (2), in a case under any chapter of this title, if the trustee does not assume or reject in unexpired lease of nonresidential real property under which the debtor is the lessee within 60 days after the date of the order for relief, or within such additional time as the court, for cause, within such 60-day period, fixes, then such lease is deemed rejected, and the trustee shall immediately surrender such nonresidential real property to the lessor.

(5) Notwithstanding paragraphs (1) and (4) of this subsection, in a case under any chapter of this title, if the trustee does not assume or reject an unexpired lease of

nonresidential real property under which the debtor is an affected air carrier that is the lessee of an aircraft terminal or aircraft gate before the occurrence-of a termination event, then (unless the court orders the trustee to assume such unexpired leases within 5 days after the termination event), at the option of the airport operator, such lease is deemed rejected 5 days after the occurrence of a termination event and the trustee shall immediately surrender possession of the premises to the airport operator; except that the lease shall not be deemed to be rejected unless the airport operator first waives the right to damages related to the rejection. In the event that the lease is deemed to be rejected under this paragraph, the airport operator shall provide the affected air carrier adequate opportunity after the surrender of the premises to remove the fixtures and equipment installed by the affected air carrier.

(6) For the, purpose of paragraph (5) of this subsection and paragraph (f)(1) of this section, the occurrence of a termination event means, with respect to a debtor which is an affected air carrier that is the lessee of an aircraft terminal or aircraft gate—

(A) the entry under section 301 or 302 of this title of an order for relief under chapter 7 of this title;

(B) the conversion of a case under any chapter of this title to a case under chapter 7 of this title; or

(C) the granting of relief from the stay provided under section 362(a) of this title with respect to aircraft, aircraft engines, propellers, appliances, or spare parts, as defined in section 101 of section 40102 of title 49, except for property of the debtor found by the court not to be necessary to an effective reorganization.

(7) Any order entered by the court pursuant to paragraph (4) extending the period within which the trustee of an

affected air carrier must assume or, reject an unexpired lease of nonresidential real Property shall be without prejudice to—

(A) the right of the trustee to seek further extensions within such additional time period granted by the court pursuant to paragraph (4); and

(B) the right of any lessor or any other party in interest to request, at any time, a shortening or termination of the period within which the trustee must assume or reject an unexpired lease of nonresidential real property.

(8) The burden of proof for establishing cause for an extension by an affected air carrier under paragraph (4) or the maintenance of a previously granted extension under paragraph (7) (A) and (B) shall at all times remain with the trustee.

(9) For purposes of determining cause under paragraph (7) with respect to an unexpired lease of nonresidential real property between the debtor that is an affected air carrier and an airport operator under which such debtor is the lessee of an airport terminal or an airport gate, the court shall consider, among other relevant factors, whether substantial harm will result to the airport operator or airline passengers as a result of the extension or the maintenance of a previously granted extension. In making the determination of substantial harm, the court shall consider, among other relevant factors, the level of actual use of the terminals or gates which are the subject of the lease, the public interest in actual use of such terminals or gates, the existence of competing demands for the use of such terminals or gates, the effect of the court's extension or termination of the period of time to assume or reject the lease on such debtor's ability to successfully reorganize under chapter 11 of this title, and whether the trustee of the affected

air carrier is capable of continuing to comply with its obligations under section 365(d)(3) of this title.
(10) The trustee shall timely perform all of the obligations of the debtor, except those specified in section 365(b)(2), first arising from or after 60 days after the order for relief in a case under chapter 11 of this title under an unexpired lease of personal property (other than personal property leased to an individual primarily for personal, family, or household purposes), until such lease is assumed or rejected notwithstanding section 503(b)(1) of this title, unless the court, after notice and a hearing and based or the equities of the case, orders otherwise with respect to the obligations or timely performance thereof. This subsection shall not be deemed to affect the trustee's obligations under the provisions of subsection (b) or (f). Acceptance of any such performance does not constitute waiver or relinquishment of the lessor's rights under such lease or under this title.

(e)(1) Notwithstanding a provision in an executory contract or unexpired lease, or in applicable law, an executory contract or unexpired lease of the debtor may not be terminated or modified, and any right or obligation under such contract or lease may not be terminated or modified, at any time after the commencement of the case solely because of a provision in such contract or lease that is conditioned on—

(A) the insolvency or financial condition of the debtor at any time before the closing of the case;

(B) the commencement of a case under this title; or

(C) the appointment of or taking possession by a trustee in a case under this title or a custodian before such commencement.

(2)Paragraph (1) of this subsection does not apply to an executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if—

(A)(i) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to the trustee or to an assignee of such contract or lease, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and

(ii) such party does not consent to such assumption or assignment; or

(B) such contract is a contract to make-a loan, or extend other debt financing or financial accommodations, to or for the benefit of the debtor, or to issue a security of the debtor.

(f)(1) Except as provided in subsection (c) of this section, notwithstanding a provision in an executory contract or unexpired lease of the debtor, or in applicable law, that prohibits, restricts, or conditions the assignment of such contract or lease, the trustee may assign such contract or lease under paragraph (2) of this subsection; except that the trustee may not assign an unexpired lease of nonresidential real property under which the debtor is an affected air carrier that is the lessee of an aircraft terminal or aircraft gate if there has occurred a termination event.

(2) The trustee may assign an executory contract or unexpired lease of the debtor only if—

(A) the trustee assumes such contract or lease in accordance with the provisions of this section; and

(B) adequate assurance of future performance by the assignee of such contract or lease is provided, whether or not there has been a default in such contract or lease.

(3) Notwithstanding a provision in an executory contract or unexpired lease of the debtor, or in applicable law that terminates or modifies, or permits a party other than the debtor to terminate or modify, such contract or lease or a right or obligation under such contract or lease on account of an assignment of such contract or lease, such contract, lease, right, or obligation may not be terminated or modified under such provision because of the assumption or assignment of such contract or lease by the trustee.

(g) Except as provided in subsections (h)(2) and (i)(2) of this section, the rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease—

(1) if such contract or lease has not been assumed under this section or u der a plan confirmed under chapter 9, 11, 12, or 13 of this title, immediately before the date of the filing of the petition; or

(2) if such contract or lease has been assumed under this section or under a plan confirmed under chapter 9, 11, 12, or 13 of this title—

(A) if before such rejection the case has not been converted under section 1112, 1208, or 1307 of this title, at the time of such rejection; or

(B) if before such rejection the case has been converted under section 1112, 1208, or 1307 of this title—

(i) immediately before the date of such conversion, if such contract or lease was assumed before such conversion; or

(ii) at the time of such rejection, if such contract or lease was assumed after such conversion.

(h)(1)(A) If the trustee rejects an unexpired lease of real property under which the debtor is the lessor and—

(i) if the rejection by the trustee amounts to such a breach as would entitle the lessee to treat such lease as terminated by virtue of its terms, applicable nonbankruptcy law, or any agreement made by the lessee, then the lessee under such lease may treat such lease as terminated by the rejection; or

(ii) if the term of such lease has commenced, the lessee may retain its rights under such lease (including rights such as those relating to the amount and timing of payment of rent and other amounts payable by the lessee and any right of use, possession, quiet enjoyment, subletting, assignment, or hypothecation) that are in or appurtenant to the real property, for the balance of the term of such lease and for any renewal or extension of such rights to the extent that such rights are, enforceable under applicable nonbankruptcy law.

(B) If the lessee retains its rights under subparagraph (A)(ii), the lessee may offset against the rent reserved under such lease for the balance of the term after the date of the rejection of such lease and for the term of any renewal or extension of such lease, the value of any damage caused by the nonperformance after the date of such rejection, of any obligation of the debtor under such lease, but the lessee shall not have any other right against the estate or the debtor on account of any damage occurring after such date caused by such nonperformance.

(C) The rejection of a lease of real property in a shopping center with respect to which the lessee elects to retain its

rights under subparagraph (A)(ii) does not affect the enforceability under applicable nonbankruptcy law of any provision in the lease pertaining to radius, location, use, exclusivity, or tenant mix or balance.

(D) In this paragraph, "lessee" includes any successor, assign, or mortgagee permitted under the terms of such lease.

(2)(A) If the trustee rejects a timeshare interest under a time share plan under which the debtor is the timeshare interest seller and—

(i) if the rejection amounts to such a breach as would entitle the timeshare interest purchaser to treat the timeshare plan as terminated under its terms, applicable nonbankruptcy law, or any agreement made by timeshare interest purchaser, the timeshare interest purchaser under the timeshare plan may treat the timeshare plan as terminated by such rejection; or

(ii) if the term of such timeshare interest has commenced, then the timeshare interest purchaser may retain its rights in such timeshare interest for the balance of such term and for any term of renewal or extension of such timeshare interest to the extent that such rights are enforceable under applicable nonbankruptcy law.

(B) If the timeshare interest purchaser retains its rights under subparagraph (A), such timeshare interest purchaser may offset against the moneys due for such timeshare interest for the balance of the term after the date of the rejection of such timeshare interest, and the term of any renewal or extension of such timeshare interest, the value of any damage caused by the nonperformance after the date of such rejection, of any obligation of the debtor under such timeshare plan, but the timeshare interest

purchaser shall not have any right against the estate or the debtor on account of any damage occurring after such date caused by such nonperformance.

(i)(1) If the trustee rejects an executory contract of the debtor for the sale of real property or for the sale of a timeshare interest under a timeshare plan, under which the purchaser is in possession, such purchaser may treat such contract as terminated, or, in the alternative, may remain in possession of such real property or timeshare interest.

(2) If such purchaser remains in possession—

(A) such purchaser shall continue to make all payments due under such contract, but may, offset against such payments any damages occurring after the date of the rejection of such contract caused by the nonperformance of any obligation of the debtor after such date, but such purchaser does not have any rights against the estate on account of any damages arising after such date from such rejection, other than such offset; and

(B) the trustee shall deliver title to such purchaser in accordance with the provisions of such contract, but is relieved of all other obligations to perform under such contract.

(j) A purchaser that treats an executory contract as terminated under subsection (i) of this section, or a party whose executory contract to purchase real property from the debtor is rejected and under which such party is not in possession, has a lien on the interest of the debtor in such property for the recovery of any portion of the purchase price that such purchaser or party has paid.

(k) Assignment by the trustee to an entity of a contract or lease assumed under this section relieves the trustee and the

estate from any liability for any breach of such contract or lease occurring after such assignment.

(l) If an unexpired lease under which the debtor is the lessee is assigned pursuant to this section, the lessor of the property may require a deposit or other security for the performance of the debtor's obligations under the lease substantially the same as would have been required by the landlord upon the initial leasing to a similar tenant.

(m) For purposes of this section 365 and sections 541(b)(2) and 362(b)(10), leases of real property shall include any rental agreement to use real property.

(n)(1) If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect—

(A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity; or

(B) to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to special performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), as such rights existed immediately before the case commenced, for—

(i) the duration of such contract; and

(ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.

(2) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, under such contract—

(A) the trustee shall allow the licensee to exercise such rights;

(B) the licensee shall make all royalty payments due under such contract for the duration of such contract and for any period described in paragraph (1)(B) of this subsection for which the licensee extends such contract; and

(C) the licensee shall be deemed to waive—

(i) any right of setoff it may have with respect to such contract under this title or applicable nonbankruptcy law; and

(ii) any claim allowable under section 503(b) of this title arising from the performance of such contract.

(3) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, then on the written request of the licensee the trustee shall—

(A) to the extent provided in such contract, or any agreement supplementary to such Contract, provide to the licensee any intellectual property (including such embodiment) held by the trustee; and

(B) not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such embodiment) including any right to obtain such intellectual property (or such embodiment) from another entity.

(4) Unless and until the trustee rejects such contract, on the written request of the licensee the trustee shall—

(A) to the extent provided in such contract or any agreement supplementary to such contract—

(i) perform such contract; or

(ii) provide to the licensee such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law) held by the trustee; and

(B) not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such embodiment), including any right to obtain such intellectual property (or such embodiment) from another entity.

(o) In a case under chapter 11 of this title, the trustee shall be deemed to have assumed (consistent with the debtor's other obligations under section 507), and shall immediately cure any deficit under, any commitment by the debtor to a Federal depository institutions regulatory agency (or predecessor to such agency), to maintain the capital of an insured depository institution, and any claim for a subsequent breach of the obligations thereunder shall be entitled to priority under section 507. This subsection shall not extend any commitment that would otherwise be terminated by any act of such an agency.

11 U.S.C. § 1107. Rights, powers, and duties of debtor in possession

(a) Subject to any limitations on a trustee serving in a case under this chapter, and to such limitations or conditions as the court prescribes, a debtor in possession shall have all the rights, other than the right to compensation under section 330 of this title, and powers, and shall perform all the functions and duties, except the duties specified in sections 1106(a)(2),

(3), and (4) of this title, of a trustee serving in a case under this chapter.

(b) Notwithstanding section 327(a) of this title, a person is not disqualified for employment under section 327 of this title by a debtor in possession solely because of such person's employment by or representation of the debtor before the commencement of the case.

28 U.S.C. § 158(d). The courts of appeals shall have jurisdiction of appeals from all final decisions, judgments, orders, and decrees entered under subsections (a) and (b) of this section.

28 U.S.C. § 1254(1). Cases in the courts of appeals may be reviewed by the Supreme Court by the following methods:

(1) By writ of certiorari granted upon the petition of any party to any civil or criminal case, before or after rendition of judgment or decree;

. . . . .

35 U.S.C. § 261. Ownership; assignment

Subject to the provisions of this title, patents shall have the attributes of personal property.

Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee or his assigns or legal representatives may in like manner grant and convey an exlusive right under his application for patent, or patents, to the whole or any specified part of the United States.

A certificate of acknowledgement under the hand and official seal of a person authorized to administer oaths with the United States, or, in a foreign country, of a diplomatic or consular officer of the United States or an officer authorized to administer oaths whose authority is proved by a certificate of a diplomatic or consular officer of the United States, or apostille of an official designated by a foreign country which, by treaty or convention, accords like effect to apostilles of designated officials in the United States, shall be prima facie evidence of the execution of an assignment, grant or convenyance of a patent or application for patent.

An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.

No. 96-1698

Supreme Court, U.S.
FILED
MAY 27 1997
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1996

INSTITUT PASTEUR and PASTEUR SANOFI DIAGNOSTICS,
Petitioners,

—v.—

CAMBRIDGE BIOTECH CORPORATION,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE FIRST CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

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May 27, 1997

QUESTION PRESENTED FOR REVIEW

Should this Court reverse the Court of Appeals' decision permitting a debtor in possession to assume and retain its own prepetition patent licenses pursuant to 11 U.S.C. § 365(c), where lower courts found that: (i) the transaction was not a "disguised assignment" to a different party; (ii) the debtor in possession was not, legally or in substance, an entity materially distinct from the debtor; (iii) if the contract were assumed by the debtor in possession, the non-debtor party would nonetheless receive the full benefit of its bargain; and (iv) the contract and applicable law permit the transaction in question?

RULE 29.6 STATEMENT

The parent companies of Respondent Cambridge Biotech Corporation are, in ascending order, bioMérieux Vitek, Inc., ABG Stella Acquisition, Inc., bioMérieux S.A., and bioMérieux Alliance, S.A. Respondent has one nonwholly owned subsidiary, Cambridge Affiliate Corporation.

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STATEMENT OF THE CASE

In 1994 Respondent Cambridge Biotech Corporation ("Respondent"), then a publicly traded company, filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code. As a Chapter 11 debtor in possession, Respondent had all the rights and powers of a trustee, 11 U.S.C. § 1107, and continued in operation. Respondent emerged from bankruptcy upon consummation of its Chapter 11 reorganization plan (the "Plan") during the week of October 21, 1996. Prior to bankruptcy, Respondent had two main business lines: a retroviral diagnostic business accounting for the majority of its sales (App. 17a) [1] and a biopharmaceutical business. Under the Plan, Respondent retained its traditional retroviral business and spun off the developing biopharmaceutical business to a new company, Aquila Biopharmaceuticals, Inc. App. 18a. Under the Plan, the stock of Respondent was sold to bioMérieux Vitek, Inc. ("bioMérieux") for cash to be used to fund other aspects of the Plan. *See* App. 38a-39a, § 3(e). In continuing to operate the retroviral business, Respondent has retained related employees, equipment, and some 38 license and sublicense agreements, including the Cross-Licenses with Petitioners.[2] App. 9a; 32a. Respondent's assumption of all such licenses and sublicenses, together with certain supply agreements and other executory contracts, was a material condition for consummation of the Plan. App. 48a, § 33.

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[1] Citations to material contained in the Appendix to the Petition ("App.") are to the material as it appears in such Appendix.

[2] The Cross-Licenses concern processes and compounds for the diagnosis of Human Immunodeficiency Virus ("HIV"), the virus that causes AIDS. *See* App. 2a-3a. Respondent holds an exclusive license from Harvard University for patents related to such diagnosis, while Petitioner Pasteur Sanofi Diagnostics ("PSD") holds a license from the other Petitioner, Institut Pasteur ("IP"), for other patents. *Id.* The Cross-Licenses ensure that Respondent and Petitioner PSD will each have the necessary technology for their independent manufacture of diagnostic test kits for AIDS.

Petitioners unsuccessfully asserted below that: (i) the Plan effected a disguised assignment of the Cross-Licenses to Respondent's new shareholder, bioMérieux; and (ii) even if there was no such assignment, 11 U.S.C. § 365(c)(1) prohibits a debtor in possession, such as Respondent, from assuming patent licenses for use in its ongoing business. Petitioners have presented only the second issue for review by this Court. In their Petition, the Petitioners have made material misstatements of fact and law.[3]

SUMMARY OF ARGUMENT

The decision of the Court of Appeals does not conflict with decisions of other Courts of Appeals or of this Court. As part of its Chapter 11 reorganization Plan, Respondent underwent a change in ownership and, under 11 U.S.C. § 365, assumed certain prepetition contracts, including the patent Cross-Licenses with Petitioners. In upholding the Plan confirmation order, the Court of Appeals determined that: (i) the transaction was not a disguised assignment of the Cross-Licenses to a different party;[4] (ii) Respondent is not, legally or in substance, an entity distinct from the prepetition entity that entered into the contracts with Petitioners; (iii) after Respondent's assumption of the contracts, Petitioners will receive the full benefit of their bargain; and (iv) the contracts by their terms permit retention by Respondent of the licenses following a change in corporate ownership of Respondent.

If a licensee of United States patents who seeks rehabilitation under Chapter 11 must forfeit its right to assume and carry out its patent licenses, the rehabilitative purposes of Chapter 11 would be

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[3] Misstatements of fact and law are discussed *infra* notes 4, 5, 11, 12 and 16.

[4] Notwithstanding that each lower court has rejected Petitioners' attempt to characterize the bioMérieux transaction as effecting an "assignment" of the Cross-Licenses, Petitioners continue to refer to it as one. Petition 3-4. As found by the lower courts, Respondent has retained, not assigned, the Cross-Licenses, and there are no compelling circumstances that warrant treating the transaction as something else. App. 11a-12a; 30a - 33a; 51a, § 34(h).

defeated and Chapter 11 would become a graveyard for technology companies whose business depends upon continued viability of their patent licenses. No circuit court has interpreted the current version of § 365(c) to deny contract assumption by a debtor in possession that is, as Respondent is here, materially the same entity as it was when it made the contract. Likewise, no circuit court has interpreted the current version of § 365(c) to deny contract assumption where the contract, as it does here, authorizes the transaction in question. Finally, the decision of the Court of Appeals is in accord, not at odds, with relevant authority of this Court recognizing, in the absence of contrary evidence, that a debtor in possession is not an entity different from the prepetition debtor.

REASONS FOR DENYING THE PETITION

I. THE CASE WAS RIGHTLY DECIDED AND PRESENTS NO COMPELLING ISSUE FOR REVIEW.

While contracts are generally assignable, common law recognizes that rights and obligations under certain types of contracts cannot be assigned or delegated to a third party. *See* RESTATEMENT (SECOND) OF CONTRACTS § 317(2) (1979). A number of cases have also held that nonexclusive licenses under United States patents may not be assigned, unless the contrary is provided in the license.[5] The courts below assumed, for purposes of their decision, that the patent licenses at issue would have been

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[5] *Everex Sys., Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673, 679 (9th Cir. 1996)("*CFLC*") and cases cited. This conclusion is said to be a matter of "federal common law," although the license agreement may have a choice of law clause adopting the law of a state (in the instant case, Massachusetts law; App. 66a, 80a). *Cf. Volt Info. Sciences, Inc. v. Board of Trustees of the Leland Stanford Junior Univ.*, 489 U.S. 468, 476 (1989) (parties' choice of California law precludes application of Federal Arbitration Act, despite strong federal policy favoring arbitration). Petitioners err (Petition 6 n.5) in attributing nonassignability to the act of Congress providing that patents for invention have the attributes of "personal property" (35 U.S.C. § 261), as such enactment merely means that patents for invention are personal property, not real property.

nonassignable under federal common law, but held that the debtor in possession could assume them for use in its business. *See* App. 8a; 25a-26a; 51a.[6]

Section 365 of the Bankruptcy Code generally permits assumption or assignment of a debtor's contracts. (*See* §§ 365(a) and (f)), but seeks to accommodate the policy of applicable common law against assignment of certain contracts to third parties. Thus, Section 365(c) as originally enacted in 1978 provided that, absent consent:

> The trustee may not assume or assign any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if-
>
> (1)(A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to *the trustee* or an assignee of such contract or lease, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties . . . .

11 U.S.C.A. § 365, Historical and Statutory Notes, "1984 Amendments." (West 1997)(emphasis added)

The trustee is of course a third party, someone other than the debtor, and assumption and performance of an executory contract by the trustee might arguably offend the law applicable to some contracts. Under Chapter 11 the debtor in possession exercises the rights and powers of the trustee, subject to applicable limitations. 11 U.S.C. § 1107. But when a debtor in possession assumes its own prepetition contract, applicable law could not be offended, so long as the debtor in possession is regarded as the same entity as

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[6] Respondent reserved its argument as to application of Massachusetts law, the bankruptcy court having found as a matter of fact that the corporate change of control transaction did not effect any "assignment" of the patent licenses. App. 51a.

the original contracting party. In 1984 Congress amended the statute to delete the above italicized reference to "the trustee" and to insert instead "*an entity other than the debtor or the debtor in possession.*" (emphasis added.) The legislative history explains that Congress intended to:

> make [ ] clear the prohibition against the trustee's powers to assume an executory contract does not apply where it is the debtor that is in possession and the performance to be given or received under a personal service contract will be the same as if no petition had been filed because of the personal nature of the contract.

H.R. Rep. No. 1195, 96th Cong. 2d Sess. § 27(b)(1980).

The 1984 amendment, whose purpose is explained by its legislative history, obviates a claim that the debtor in possession cannot assume and perform any contract that the trustee or a third party would be barred from taking over. *See Summit Inv. and Dev. Corp. v. LeRoux (In re LeRoux)*, 69 F.3d 608, 613 (1st Cir. 1995), (relying on legislative intent); *In re Cardinal Indus., Inc.*, 116 B.R. 964, 979 (Bankr. S.D. Ohio 1990) (same). The First Circuit decision in the instant case is consistent with all other circuit court authority in holding that a debtor in possession which is found to be materially the same entity as the prepetition debtor will not be barred from assuming and performing the contract. Here, there was no factual showing that Respondent's assumption of its own patent licenses, whether viewed separately or in conjunction with acquisition of stock ownership by bioMérieux, was a transaction that would deprive Petitioners of the benefit of their original bargain. Indeed, as the Court of Appeals held, the potential for change in corporate ownership had been the subject of negotiation and Petitioners foresaw or should have foreseen the possibility of

such a change as to Respondent, but understood and agreed that the licenses would nonetheless remain in effect. App. 12a-14a. There was no basis in fact or law for the Court of Appeals to reach a different result, and the case presents no compelling issue for review.

II. THERE IS NO CONFLICT BETWEEN THE FIRST CIRCUIT'S DECISION AND THE DECISIONS OF OTHER CIRCUITS APPLYING § 365(C).

A. Both The Third Circuit And The First Circuit Focus On Whether The Debtor In Possession Seeking Contract Assumption Is A Materially Distinct Entity From The Prepetition Debtor, And The Differences In The Decisions Are Attributable To The Different Facts In Each Case.

Petitioners seek to contrive a conflict between the instant case and the opinion of a divided panel of the Third Circuit in *In re West Electronics Inc.*, 852 F.2d 79, 83 (3d Cir. 1988) ("*West*"), but the result in *West* was a function of very different facts and applicable law.[7]

In *West*, the issue was whether the automatic stay under 11 U.S.C. § 362 should be lifted to permit the government to terminate a contract for the production of military equipment. In holding that the stay should be lifted, the *West* court pointed out that the Anti-Assignment Act, 41 U.S.C. § 15, prohibited assignment of the contract without the government's consent and that the government had not consented. *Id.* at 83. Here, in

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[7] Petitioners acknowledged below that *West* was not on point, prefacing citations to *West* with the caveat that: "Similarly, *although not directly on point*, cases involving contracts other than patent licenses also look to whether applicable nonbankruptcy law prohibits assignment to determine whether §365(c) operates as a limitation on the general authority of §§365(a) and (f) to assume and assign executory contracts." Brief Of Appellants Institut Pasteur And Pasteur Sanofi Diagnostics, pp. 30-31 n.37 (emphasis added), filed with the Court of Appeals.

contrast, it was found that the contract permitted the transaction. App. 13a. Moreover, the *West* court, in attempting to divine Congressional purpose in § 365(c), believed that Congress was intent on precluding assumption in that context, as "a solvent contractor and an insolvent debtor in possession going through bankruptcy are materially distinct entities." *West*, 852 F.2d at 83. Here, in contrast, the Court of Appeals (and the lower courts) concluded that Respondent, under new ownership, was *not* an entity materially distinct from the prebankruptcy debtor.[8] App. 10a-11a; 26a-33a; 51a, § 34(h). In contrast to the debtor in *West*, Respondent was solvent and was capable of performing under the contract.[9]

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[8] The two courts use the same terminology in discussing whether § 365(c) precludes assumption: in *West*, assumption was denied where the debtor in possession was a "materially distinct entity" from the prepetition debtor; in the instant case, assumption was permitted where the debtor in possession was *not* an "entity materially distinct" from the prepetition debtor.

[9] Petitioners include a string cite of lower court decisions evidencing what petitioners say is confusion in the lower courts. Petition 9 n.7. In fact, assumption was permitted in every post-*West* decision Petitioners cited in which the debtor in possession was materially the same entity as the prepetition debtor, *infra* note 14, whereas both cases in which assumption was denied were cases in which the debtors in possession were materially distinct entities from the prepetition debtors. Both such cases are not relevant authority for other reasons as well. *Breeden v. Catron (In re Catron)*, 158 B.R. 629, 638 (E.D. Va. 1993) (terminating partnership agreement based on reading of 11 U.S.C. § 365(e)(2), which is not applicable here, and because the postpetition debtor was not the "same legal entity" due to the effect of the bankruptcy filing in shifting the debtor's fiduciary obligations from his partners to his creditors), *aff'd*, 25 F.3d 1038 (4th Cir. 1994); *In re Carolina Parachute Corp.*, 108 B.R. 100, 101 (M.D. N.C. 1989) ("*Carolina Parachute I*") (allowing the government to terminate its contract with the debtor in possession, because the court concluded that the postpetition debtor was a materially different entity), *aff'd in part, vacated in part, and remanded*, 907 F.2d 1469 (4th Cir. 1990) ("*Carolina Parachute II*"). Petitioners cited to *Carolina Parachute I* (Petition 9 n.7), the district court decision, but failed to note that such decision was reviewed and vacated on appeal on the § 365(c) issue. On appeal, termination of the contract was denied, as the government had not timely objected to its assumption. *Carolina Parachute II*, 907 F.2d at 1473.

Such fact-specific decisions do not offer a sound basis for review on certiorari. *See United States v. Johnson*, 268 U.S. 220, 227 (1925) ("We do not grant a certiorari to review evidence and discuss specific facts.").

B. Even The Third Circuit Does Not Follow The So-Called "Hypothetical Test" That Petitioners Contend Conflicts With The First Circuit's Decision.

The *West* court wrote, in dicta, that: "11 U.S.C. 365(c)(1) creates a hypothetical test--*i.e.*, under the applicable law, could the government refuse performance from 'an entity *other* than the debtor or the debtor in possession.'" *West*, 852 F.2d at 83 (emphasis in original). Petitioners contend that under such dicta a debtor in possession may never assume a contract where applicable law would prevent assignment of that contract to a third party, but that portion of the *West* opinion was subject to a dissent by Judge Higginbotham (852 F.2d at 84), and such a rule has not been sustained in subsequent Third Circuit decisions, which make clear the Third Circuit does not subscribe to such a test. [10]

In *In re Headquarters Dodge, Inc.*, 13 F.3d 764, 682-83 (3d Cir. 1993), a § 365(c) case which is not directly in point because it involved assignment of the contract to a third party, the Third Circuit referred to statements in *West* and another case as "Third Circuit dicta" (*id.* at 682) and concluded that a fact intensive inquiry would be necessary, based on factors such as the original expectations of the parties, to determine whether assignment in bankruptcy should be denied. *Id.* at 683. Thus, on appropriate facts, the Third Circuit would permit assignment by a trustee or debtor in possession despite applicable law precluding assignment in other circumstances. If the Third Circuit would permit assignment in the face of applicable law making the contract non-assignable, it would necessarily permit assumption in that

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[10] Apart from producing absurd results, application of such a hypothetical test has been severely criticized as contrary to the legislative history of § 365(c) and a prior decision of this Court. *See infra* notes 14 and 18.

circumstance, because assumption is a statutory prerequisite to assignment. *See* 11 U.S.C. § 365(f)(2) ("the trustee may assign an executory contract . . . only if -- the trustee assumes such contract . . . .").

Again, in *In re University Medical Ctr.*, 973 F.2d 1065 (3d Cir. 1992), the Third Circuit recognized that the Anti-Assignment Act makes government contracts non-assignable, *id.* at 1076 n.15, but nonetheless found "persuasive" the First Circuit view that no blanket prohibition on assumption applies: "'*[W]e see no reason why section 365 should not apply with full force to permit the assumption or rejection of government contracts by debtors.*'" *Id.* at 1077 n.16 (3d Cir. 1992) (emphasis in original) (quoting *In re Corporacion de Servicios Medicos Hospitalarios de Fajardo*, 805 F.2d 440, 447 n.10 (1st Cir. 1986)). While in that case the government waived its rights under the Anti-Assignment Act, the general statement to which the Third Circuit subscribed is nonetheless irreconcilable with the hypothetical test attributed to *West* by Petitioners, which would render all government contracts non-assumable, because the Anti-Assignment Act prohibits their transfer to any other party, without consent. 41 U.S.C. § 15(a). If panels of the Third Circuit are inconsistent, it is for the Third Circuit, not this Court, "to reconcile its internal difficulties." *Wisniewski v. United States*, 353 U.S. 901 (1957).

C. In Any Event, The "Hypothetical Test" Would Not Be Relevant Here, Because The Cross-Licenses And Applicable Law Permit The Transaction At Issue.

While the Court of Appeals did not herein apply the "hypothetical test," the facts of this case would lead to the same result under that test, since the contract in question and applicable law permit the very transaction complained of by Petitioners. The Court of Appeals held that Petitioners "foresaw, or reasonably should have foreseen" that Respondent might undergo a change in ownership, "but nonetheless chose not to condition the continued viability of its cross-licenses accordingly." App. 13a-14a. As the court determined, "[t]hese cross-licenses explicitly authorize

[Respondent] to share its license rights with any 'affiliated company,' which on its face presumably encompasses a parent corporation such as bioMérieux's subsidiary." App. 13a. Such determinations, involving interpretation of a contract, provide no basis for grant of certiorari. *See The Monrosa v. Carbon Black Export, Inc.*, 359 U.S. 180, 182-185 (1959) (certiorari denied despite conflict of decision where case concerned contract interpretation).[11] Even if § 365(c)(1)(A) would prohibit assumption, § 365(c)(1)(B) permits assumption where the non-debtor party has consented. *See, e.g., Catron*, 158 B.R. at 636 ("the statute also requires that the nondebtor parties to the contract fail to consent to the assumption . . ."). Here, the terms of the Cross-Licenses clearly permit their retention despite the change in corporate ownership.[12] App. 12a-14a. *See Metropolitan Airports*

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[11] In an apparent invitation to this Court to resolve a factual dispute, Petitioners argue that the First Circuit's analysis of the contract is incorrect (Petition 16 n.16), and that the territory licensed to Respondent excluded the United States, but the Cross-Licenses state that the covered territory "*shall be automatically extended*" to include the United States (as well as other territories listed under Exhibit C to the Cross-Licenses), in the event that Petitioners recovered from Genetic Systems the right to practice in such territories, which Petitioners were to use "best effort[s] to recover." App. 61a, § 2.2; App. 74a, § 2.2. In a separate action between Petitioner IP and Respondent, the bankruptcy court found, over Petitioner IP's objections, that, for purposes of the contract, the rights had been so extended, thereby authorizing Respondent to use Petitioners' technology in those territories, including the United States. *See Institut Pasteur v. Cambridge Biotech Corp. (In re Cambridge Biotech Corp.)*, 186 B.R. 9, 16-17, 22 (Bankr. D. Mass. 1995), *appeals docketed and pending* Nos. 95-40188, 95-40189 (D. Mass. October 5, 1995). Petitioners maintain "federal common law" prevents assignment of licenses covering U.S. patents, but U.S. patent law will not be applicable if the territory covered by the Cross-Licenses does not include the United States.

[12] In their effort to avoid the terms of the Cross-License, Petitioners argue that the terms of the contract are irrelevant, although that contention is not supported by any citations. Petition 16. The phrase "whether or not such contract or lease prohibits or restricts assignment of rights or delegations of duties" in § 365(c) does not make irrelevant the terms of the contract authorizing assignment. The only contractual language to be ignored under § 365(c) is anti-assignment language, as § 365(c): "*prevents* parties from using contractual language to *prevent* the trustee from assigning contracts that (when the contract is

Comm'n v. Northwest Airlines (*In re Midway Airlines*), 6 F.3d 492, 496 (7th Cir. 1993) (where the non-debtor party agreed in the contract to a transaction that later takes place, it "cannot now object to the one proposed here"). Thus, even if this Court found that the First Circuit incorrectly applied § 365(c) such a ruling would not change the result. *See Sommerville v. United States*, 376 U.S. 909 (1964) (denying certiorari where resolution of a conflict would not change the result below).

D. The Decision Of The First Circuit Poses No Conflict With The Decisions Of Other Courts Of Appeals.

This case does not present the Court with an opportunity to resolve any "conflict" between the First Circuit and other circuits.[13] Petitioners cite to several decisions that arose in a patchwork of various factual circumstances, none of which resemble the facts presented here. No circuit court has denied assumption where (as here) the debtor in possession seeking assumption was found to be materially the same entity as the prepetition debtor. No circuit court has denied assumption where (as here) the contract was to be retained in the debtor's *bona fide* ongoing business following a change in corporate ownership. The First Circuit's decision below creates no "real and embarrassing conflict of opinion and authority between the circuit courts of appeal" justifying review on certiorari. *National Labor Relations Board v. Pittsburgh S.S. Co.*, 340 U.S. 498, 502 (1951) (quoting

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silent) contract law typically makes assignable." *Pioneer Ford*, 729 F.2d at 28 (emphasis added). *See also Metropolitan Airports Comm'n v. Northwest Airlines (In re Midway Airlines)*, 6 F.3d 492, 495-96 (7th Cir. 1993) (assumption was permitted, over the nondebtor party's objections, because the contract authorized it).

[13] Petitioners argue that the First Circuit's decision conflicts with *In re James Cable Partners, L.P.*, 27 F.3d 534 (11th Cir. 1994), but that case ruled that assumption was *permitted*, despite an applicable law that prohibited assignment.

Layne & Bowler Corp. v. Western Well Works, Inc., 261 U.S. 387, 393 (1923)).[14]

In their effort to contrive a conflict, Petitioners have also cited cases which are distinguishable because they involved assignment, not assumption. *See In re CFLC, Inc.*, 89 F.3d 673 (9th Cir. 1996); *Rieser v. Dayton Country Club Co. (In re Magness)*, 972

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[14] The reading Petitioners seek to adduce from *West* also has been rejected nearly uniformly by the lower courts in decisions since *West*. These courts view the test as "absurd" or as a "legal tautology." *See, e.g., Summit Inv. and Dev. Co. v. LeRoux (In re LeRoux)*, 69 F.3d 608, 613 (1st Cir. 1995) (rejecting the hypothetical test, because it leads to the nonsensical result of preventing a debtor from assuming its own contracts); *In the Matter of American Ship Bldg. Co., Inc.*, 164 B.R. 358, 362 (Bankr. M.D. Fla. 1994) (permitting debtor to assume a government contract, and rejecting the hypothetical test, because it prevents a debtor from assuming its own contract and is, at the least, a legal tautology). *See also In the Matter of GP Express Airlines, Inc.*, 200 B.R. 222, 231-32 (Bankr. D. Neb. 1996) (where there is an assumption, rather than an assignment, there is no need to pose the hypothetical question); *In re Nizny*, 175 B.R. 934, 936-38 (Bankr. S.D. Ohio 1994) (rejecting hypothetical test under analysis of §§ 365(c) and 365(e)); *In the Matter of Optimum Merchants Servs.*, 163 B.R. 546, 554 (Bankr. D. Neb. 1994) ("[M]ost bankruptcy courts have expressly rejected the Third Circuit's hypothetical test."), *vacated on appeal by consent order*, 199 B.R. 409 (D. Neb. 1995); *Texaco Inc. v. Louisiana Land and Exploration Co.*, 136 B.R. 658, 670 (Bankr. M.D. La. 1992) ("the trend appears to be away from the 'hypothetical test' of *West*"); *In re Fastrax, Inc.*, 129 B.R. 274, 277 (Bankr. M.D. Fla. 1991) (hypothetical test is not "appropriate under § 365(c)(1)"); *In re Hartec Enters., Inc.*, 117 B.R. 865, 871 (Bankr. W.D. Tex. 1990) ("The hypothetical test also violates a basic rule of statutory construction that a court should give effect to every word in a statute."), *vacated by compromise*, 130 B.R. 929 (Bankr. W.D. Tex. 1991); *In re Ontario Locomotive & Indust. Ry. Supplies, Inc.*, 126 B.R. 146, 147 (Bankr. W.D. N.Y. 1991) (remarking that *West* "has not been lacking for hostile critics"); *In re Cardinal Indus., Inc.*, 116 B.R. 964, 979 (Bankr. S.D. Ohio 1990) (examining the legislative history of the 1984 amendment and finding the hypothetical test in *West* to be "not appropriate under § 365(c)(1)").

F.2d 689 (6th Cir. 1992); [15] *In re Pioneer Ford Sales, Inc.*, 729 F.2d 27 (1st Cir. 1984);[16] *Pension Benefit Guar. Corp. v. Braniff Airways, Inc. (In re Braniff Airways, Inc.)*, 700 F.2d 935 (5th Cir. 1983). The decisions in those cases pose no conflict, because they did not deny a request for mere assumption and retention of a contract by an original party to the contract.

Petitioners also try to contrive a conflict by citing cases that interpreted the version of § 365(c) that existed prior to the 1984 amendment, discussed *supra* at pp. 4-6. *See Braniff Airways*, 700 F.2d 935; *In re Adana Mortgage Bankers, Inc.*, 12 B.R. 977 (Bankr. N.D. Ga. 1980). *In re Pioneer Ford Sales, Inc.*, 729 F.2d 27 (1st Cir. 1984), as an assignment case is consistent with the decision below, but also predates the 1984 amendment regarding assumption by the debtor in possession. The instant decision cannot be said to conflict with the pre-1984 amendment cases, because the purpose and effect of that amendment was to preclude

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[15] While the Sixth Circuit in *Magness* disagreed with *Pioneer Ford* as to the interplay of § 365(c) and (f) in cases involving assignment, the transaction in this case does not involve assignment and thus does not involve § 365(f). In any event, the *Magness* court is in accord with the First Circuit that the preliminary inquiry under § 365(c) is whether the non-debtor's rights will be adversely impacted. The *Magness* court wrote:

> Subsection (c) states that *if the attempted assignment by the trustee will impact upon the rights of a non-debtor third party*, then any applicable law protecting the right of such party to refuse to accept from or render performance to an assignee will prohibit assignment by the trustee.

Magness, 972 F.2d at 695 (emphasis added).

[16] Petitioners incorrectly state that the court in *Pioneer Ford* "wrote that § 365(c) prohibits assumption where applicable law renders the contract nonassignable." Petition 5. In fact, *Pioneer Ford* addressed only assignment, not assumption. *See also Midway Airlines*, 6 F.3d at 495 (distinguishing *Pioneer Ford* as applying only to contracts silent on the issue of assignability and as inapplicable where the contract authorized assignment).

any prohibition on the debtor's own assumption and performance of contracts that could not be assigned to a third party.[17]

E. The Facts Of This Case Present No Conflict Of Federal Policies.

Similarly, the facts of this case do not require a court to balance patent policies against bankruptcy policies. This case involved assumption and retention, not assignment to a third party. *Cf. CFLC*, 89 F.3d at 676-77 (involving assignment of patent licenses, not mere assumption). There is no policy prohibiting retention of patent licenses by original parties. Indeed, contract policies support upholding a patent licensor's agreement, such as that here, which authorize a licensee to retain its license notwithstanding a change in corporate ownership. *See* App. 13a. Cognizant of the patent policies against *assignment* to which Petitioners refer, the Court of Appeals noted that "the product-innovation theme promoted under patent law may well be accommodated by allowing patent holders to control sublicensing

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[17] Petitioners refer in a footnote to two unpublished decisions of the Fourth Circuit, neither of which conflicts with the First Circuit's decision here. In *Breeden v. Catron (in re Catron)*, 25 F.3d 1038, 1994 W.L. 258400, * 1, 1994 U.S. App. LEXIS 14585, * 2 n.1 (4th Cir. June 14, 1994) (unpublished opinion) ("*Catron II*"), without extended analysis the Fourth Circuit affirmed the district court's decision, which is distinguishable on its facts. The district court found the postpetition debtor to be a different entity than the prepetition debtor, as the debtor's fiduciary obligations in that case shifted from his partners to his creditors when he filed for bankruptcy. *Breeden v. Catron v. (In re Catron)*, 158 B.R. 629, 638 (E.D. Va. 1993) ("*Catron I*"), *aff'd*, 25 F.3d 1038 (4th Cir. Aug. 23, 1994). In addition, *Catron* actually involved application of § 365(e)(2) (which invalidates certain clauses that purport to terminate, *ipso facto*, a contract based upon a bankruptcy filing), while this case does not involve an *ipso facto* clause and thus does not involve § 365(e)(2).

The second unpublished Fourth Circuit opinion that Petitioners cite is consistent with the First Circuit's decision below. *Gould v. Antonelli (In re Antonelli)*, 4 F.3d 984, 1993 U.S. App. LEXIS 37907 (4th Cir. 1993) (unpublished opinion). In its opinion, the Fourth Circuit, after extensive analysis, affirmed the district court's "adoption" of a "materiality of identity" test similar to the one adopted by the First Circuit in this case.

through negotiated contract restrictions." App. 12a n.11 (emphasis in original). The Court of Appeals decision merely enforces Petitioners' own contractual intent, that Respondent was to retain benefits of the Cross-Licenses despite potential shifts in Respondent's corporate ownership.

III. THE COURT OF APPEALS' DECISION DOES NOT CONFLICT WITH PRIOR DECISIONS OF THIS COURT.

The act of commencing a bankruptcy case does not change the legal identity of an entity or its capacity to perform its contracts. *National Labor Relations Board v. Bildisco & Bildisco*, 465 U.S. 513, 528 (1984).[18] This Court in *Bildisco* said that a debtor in possession is not, on its face, a distinct entity:

> Obviously if the [debtor in possession] were a wholly "new entity," it would be unnecessary for the Bankruptcy Code to allow it to reject executory contracts, since it would not be bound by such contracts in the first place. For our purposes, it is sensible to view the debtor-in-possession as the same "entity" which existed before the filing of the bankruptcy petition, but empowered by virtue of the Bankruptcy Code to deal with its contracts and

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[18] In *LeRoux*, the First Circuit wrote:

> Mirroring the 1984 legislative history discussed above, pertinent Supreme Court decisions diminish the legal "fiction" that the prepetition debtor and the postpetition debtor are to be treated as though they were separate legal entities, *see National Labor Relations Bd. v. Bildisco & Bildisco*, 465 U.S. 513, 528, 104 S. Ct. 1188, 1197, 97 L.Ed.2d 482 (1984), thereby undermining [the nondebtor party's] thesis that the postpetition "change" in contract performance is sufficiently substantial--in and of itself--to deprive parties like [the nondebtor party] of the full benefit of their bargain. [citations omitted].

LeRoux, 69 F.3d at 613-14.

> property in a manner it could not have employed absent the bankruptcy filing.
>
> The fundamental purpose of reorganization is to prevent a debtor from going into liquidation. . . .

Bildisco, 465 U.S. at 528. Whatever the appropriate allocation of burdens of proof or persuasion, the First Circuit did not need to decide that issue, as the record established beyond dispute that:

> [Respondent] all along has conducted, and proposes to continue, its retroviral diagnostic enterprise as the same corporate entity which functioned prepetition, while utilizing [Petitioners'] HIV2 procedures in that same prepetition endeavor.

App. 11a.

The Court of Appeals' decision does not alter the debtor in possession's obligation to prove that its assumption or rejection will "benefit" the estate, the only burden the decisions cited by Petitioners impose on Respondent. *Bildisco*, 465 U.S. at 526; *In re Anglo Energy Ltd.*, 41 B.R. 337, 340 (Bankr. S.D. N.Y. 1984). The bankruptcy court found that Respondent discharged that burden, and Petitioners have never argued otherwise. *See* App. 42a; 46a, §§ 9, 25, 27. Accordingly, the First Circuit's decision presents no conflict with *Bildisco*.

CONCLUSION

For all of the foregoing reasons, Respondent respectfully requests that the petition for certiorari be denied.

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Supreme Court, U.S.
FILED
JUN 5 1997
OFFICE OF THE CLERK

(3)

No. 96-1698

IN THE
Supreme Court of the United States
October Term, 1996

INSTITUT PASTEUR AND PASTEUR SANOFI DIAGNOSTICS,

Petitioners,

v.

CAMBRIDGE BIOTECH CORPORATION,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIRST CIRCUIT

PETITIONER'S REPLY BRIEF

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STATUTES

11 U.S.C. § 365(c) ..... *passim*

41 U.S.C. § 15 6

MISCELLANEOUS

How to Transfer a Nonassignable Patent License, 17 BANKR. L. LETTER 1, No. 4 (Warren, Gorham & Lamont, April, 1997) 2

King, *Assuming and Assigning Executory Contracts: A History of Indeterminate 'Applicable Law'*, 70 AM. BANKR. L.J. 95 (Spring 1996) 2

Macey and Sacca, *Reconciling Sections 365(c)(1) of the Bankruptcy Code: Should Anti-Assignment Laws Prohibit Assumption of Contracts by a Debtor in Possession?*, 100 COMM. L.J. 117 Summer 1995) 1, 2, 7

SUMMARY OF ARGUMENT

Respondent errs in arguing, inconsistently with every cited commentator and authority that has reviewed the cases, that there is no conflict in the circuits regarding the interpretation of 11 U.S.C. § 365(c). Respondent reaches this unsupported conclusion only by dismissing or distinguishing all cases that evidence this conflict. Where Respondent cannot distinguish the cases on this ground, the conflict is explained away by reference to the particular facts of the cases. However, this only serves to strengthen Petitioner's argument that there exists a divergence of approaches to the interpretation of § 365(c)[1] almost as numerous as the cases found. Further, contrary to Respondent's arguments, the 1984 amendments to the bankruptcy code have not resolved this conflict. There is no risk that Chapter 11 will become a "graveyard" to technology companies if this Court reverses the First Circuit below.

I. RESPONDENT IS MISTAKEN IN ITS ASSERTION THAT THERE IS NO CONFLICT AMONG THE CIRCUITS REGARDING THE MEANING OF 11 U.S.C. § 365(c).

The short answer to Respondent's contention that there is no conflict among the circuits regarding the meaning of 11 U.S.C. § 365(c) is that it is wrong. Not surprisingly, Respondent cites no authority for its creative interpretation of applicable precedent. In contrast, virtually every commentator and authority that has analyzed the opinions of the circuit and lower courts has concluded that the case law is hopelessly divergent and conflicting. *See,* Macey and Sacca, *Reconciling Sections 365(c)(1) and (f)(1) of the Bankruptcy Code: Should*

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[1] Unless otherwise indicated, all statutory references are to the United States Bankruptcy Code, 11 U.S.C. §§ 101-1130, as amended.

Anti-Assignment Laws Prohibit Assumption of Contracts by a Debtor in Possession?, 100 COMM. L.J. 117 (Summer 1995) (hereinafter "Macey & Sacca"); King, *Assuming and Assigning Executory Contracts: A History of Indeterminate 'Applicable Law'*, 70 AM. BANKR. L.J. 95 (Spring 1996); *see also, In re Antonelli*, 148 B.R. 443, 447 (D. Md. 1992), *aff'd without written opinion*, 4 F.3d 984 (4th Cir. 1993).

Indeed, in commenting upon the First Circuit's opinion in this case, one bankruptcy commentator has noted "[u]nfortunately, the conundrum of interpreting 'applicable law' in section 365(c) *continues* to plague the courts." *How to Transfer a Nonassignable Patent License*, 17 BANKR. L. LETTER 1, No. 4 (Warren, Gorham & Lamont, April, 1997) (emphasis added).[2] In short, the conflict among the circuits is severe, and every commentator and court that has reviewed these cases recognizes this conflict.

II. RESPONDENT ERRS IN TRYING TO DISTINGUISH EVERY CASE THAT SUPPORTS PETITIONERS.

The thrust of Respondent's position is that no court has denied assumption where the debtor-in-possession seeking assumption was found to be materially the same entity as the prepetition debtor. Respondent distinguishes every case contrary to its position on various irrelevant factual bases, princi-

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[2] This article is reproduced in the Appendix to this Reply Brief at App. A. As both the title and substance of this article make clear, Petitioners' concern that the First Circuit's opinion below would become a blueprint for evading the long-standing prohibition against nonconsensual assignments of nonexclusive patent licenses has come to pass. Recognizing the interpretive confusion surrounding § 365(c), this article further comments, "many courts have noted, and as this newsletter often has observed, Section 365(c)(1) is fraught with ambiguity and uncertainty." *Id.*

pally on the grounds that many cases cited by Petitioners involve not only assumption, but assignment of the relevant contract as well.

The distinctions Respondent draws are immaterial. First, § 365(c) applies equally to assignment as well as assumption.[3] The statute prohibits "assumption or assignment" where applicable nonbankruptcy law prohibits assignment. The plain language of the statute applies the same standard to determine whether an executory contract can either be assumed or assigned. In either instance, courts are called upon to interpret the phrase "applicable law" in § 365(c) to determine whether the statute prohibits either assumption or assignment. Thus, the cases analyzing the phrase where a debtor seeks both to assume and assign the contract are as meaningful as the cases analyzing the phrase where the debtor seeks to assume, but not assign, the contract. *Compare, In re West Electronics, Inc.*, 852 F.2d 79 (3rd Cir. 1988) (debtor prohibited from assuming contract) *with Rieser v. Dayton Country Club Co. (In re Magness)*, 972 F.2d 689 (6th Cir. 1992) (trustee seeks to assign contract). Consistently, courts refer to § 365(c) as prohibiting both assumption and assignment, thereby at least implicitly

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[3] Although Respondent now argues cases interpreting § 365(c) where a debtor or trustee seeks to assume as well as assign a contract are distinguishable from cases where only assumption is involved, below Respondent inconsistently conceded that

> § 365(c), by its terms, addresses circumstances in which a trustee is prohibited from both "assum[ing] or assign[ing]" executory contracts. Thus, while [Respondent] disputes that the Plan contemplates an assignment, the provisions in Section 365(c) apply equally to assumption and assignment.

Brief of [Respondent] at 14-15, *Institut Pasteur v. Cambridge Biotech Corp. (In re Cambridge Biotech Corp.)*, No. 96-40176-NMG (D.Mass. Sept. 27, 1996).

rejecting the distinction Respondent draws between cases involving only assumption and cases involving assumption and assignment. *Everex Systems, Inc. v. Cadtrak Corporation (In re CFLC, Inc.)*, 89 F.3d 673, 677 (9th Cir. 1996) (since "a nonexclusive patent license is personal and nondelegable under federal law, § 365(c) bars the "*assumption and assignment*" of the license) (emphasis added).

Thus, the cases cited by Petitioners in their Petition are applicable, and the well recognized conflict described in the Petition is presented to this Court for resolution in this case.

III. Contrary To Respondent's Assertion, The Conflict In Interpretation Has Survived The 1984 Amendment Of § 365(c)(1).

Respondent asserts that the 1984 amendment of Section 365(c)(1) has effectively disposed of any conflict among the circuits concerning the power of the debtor-in-possession to assume executory contracts, and has resulted in a *de facto* legislative override of cases, such as *West Electronics*, that adopt the so-called "hypothetical test." (Opposition 5.) Both assertions are inaccurate.

First, a review of the cases decided subsequent to the 1984 amendment shows that the courts are in conflict in their interpretation of §§ 365(c)(1) and (f)(1), *as amended*.[4] The mean-

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[4] *Compare Summit Inv. and Dev. Corp. v. LeRoux (In re Le Roux)*, 69 F.3d 608 (1st Cir. 1995) (declining to follow hypothetical test and permitting assumption where nondebtor party cannot show it will be deprived of the full benefit of its bargain) *with In re James Cable Partners, L.P.*, 27 F.3d 534, 538 (11th Cir. 1994) ("we conclude that applicable Tennessee law does not excuse the City from accepting performance from an entity other than James Cable, that the 365(c)(1) exception does not apply in this case [as a result], and that James Cable as debtor in possession may *therefore* assume the cable franchise agreement from itself as debtor under 11

ing of the phrase "applicable law" as used in §§ 365(c)(1) and (f)(1), the subject of the conflicting interpretations of § 365(c), is unaffected by the 1984 amendment, since the 1984 amendment did not change the "applicable law" language. Indeed, the amendments furthered, rather than resolved, the conflict regarding the phrase "applicable law" in § 365(c). While the amendments added certain language Respondent relies upon, the amendments did not eliminate the disjunctive application of § 365(c) to either assumption or assignment or delete the reference to "applicable law." Thus, the amendments had no effect on the conflicting interpretations of the phrase "applicable law" in the statute — the phrase that controls the outcome of this case. The cases interpreting the phrase "applicable law" that predate the 1984 amendments remain relevant.

Respondent's reading of the amendment also leads to an absurd reading of the statute as a whole. If, as Respondent contends, the amendment means a debtor-in-possession can always assume the contract when it is the same entity as the prepetition debtor, regardless of whether applicable law prohibits assignment, then § 365(c) would not prohibit assumption where applicable law prohibits assignment. Yet, at least on its face, without the judicial gloss imposed by decisions such as the First Circuit decision below, the statute clearly prohibits either "assumption or assignment" where applicable law prohibits assignment.

Respondent's position effectively amends the statute, since according to Respondent, applicable law is irrelevant to

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U.S.C. § 365(a).") (emphasis added) *and In re Plum Run Service Corp.*, 159 B.R. 496, 501 (S.D. Ohio 1993) (maintenance contract between debtor-in-possession and federal government could not be assumed by debtor-in-possession where federal law would preclude assignment of the contract to a third party).

whether a debtor-in-possession may assume the contract. This is a result clearly at odds with the language Congress chose when it enacted both the original version of § 365(c) as well as the 1984 amendments.

Second, the 1984 amendments did not effect a Congressional override of cases such as *West Electronics* that declare a so-called "hypothetical test." Indeed, *West Electronics* itself interpreted the amended statute and courts have explicitly followed the hypothetical test even after adoption of the 1984 amendments. The court in *In re Plum Run Service Corp.*, in adopting the hypothetical test, cataloged a number of cases that also applied the hypothetical test. There the court explained:

> As noted by the Third Circuit in *Matter of West Electronics, Inc.*, 852 F.2d 79, 83 (3rd Cir. 1988), Section 365(c)(1) creates a hypothetical test: Under applicable law, could the government refuse performance from an entity other than the debtor or the debtor-in-possession? [The r]elevant inquiry is not whether 41 U.S.C. § 15 precludes an assignment from the prepetition debtor to the debtor-in-possession, but whether it would foreclose an assignment from the prepetition debtor to any other contractor. *West Electronics*, 852 F.2d at 83. This reasoning was accepted by the Court in *In re Carolina Parachute Corp.*, 108 B.R. 100 (M.D.N.C. 1989) which noted that both the performance of the debtor as well as the debtor's financial status are irrelevant inasmuch as the plain language of 41 U.S.C. § 15 precludes assumption of a government contract by a debtor-in-possession. Other cases have ruled consistently

> with the *West Electronics case. See, e.g., In re Adana Mortgage Bankers, Inc.*, 12 B.R. 977 (Bankr. N.D. Ga. 1980); *In re Pennsylvania Peer Review Organ., Inc.*, 50 B.R. 640 (Bankr. M.D. Pa. 1985).

In re Plum Run Service Corp., 159 B.R. at 501. Respondent's reference to cases rejecting the hypothetical test serve only to demonstrate yet another source of conflict among the courts in their interpretation of § 365(c). (Opposition 12, n.14.) *See generally,* Macey and Sacca, 100 COMM. L.J. at 124-125 (criticizing cases relying on 1984 amendments to reach result Respondent urges here as inconsistent with text of § 365(c)).

IV. REVERSAL OF THE FIRST CIRCUIT IN THIS CASE WILL NOT RESULT IN CHAPTER 11 BECOMING A "GRAVEYARD" FOR TECHNOLOGY COMPANIES.

Citing no authority, Respondent suggests a "Chicken Little" policy argument supporting its position that the language of § 365 should be ignored and that applicable law is irrelevant despite the language of § 365(c). Respondent claims "[i]f a licensee of United States patents who seeks rehabilitation under Chapter 11 must forfeit its right to assume and carry out its patent licenses, the rehabilitative purposes of Chapter 11 would be defeated and Chapter 11 would be a graveyard for technology companies whose business depends upon continued viability of their patent licenses." (Opposition at 2-3.) Like most nightmares, this assertion has no substance and is not at all frightening when considered in the clear light of day. This bald assertion is false and has been rejected by the courts that have considered it. This assertion also is no justification for a Court to ignore the language of the statute.

In *In re CFLC, Inc.*, 174 B.R. 119 (N.D. Cal. 1994), *aff'd sub. nom., Everex Systems, Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673 (9th Cir. 1996), the debtor made the same bald assertion made by Respondent here. The debtor sought to assume and assign a nonexclusive patent license, such as those at issue in this case. The licensor prevailed on its objection on the grounds § 365(c) prohibits assumption and assignment, since applicable law prohibits nonconsensual assignment of such licenses. On appeal, the debtor argued "bankruptcy policy requires maximization of a debtor's assets and that the result [prohibiting assumption and assignment under § 365(c)] undermines that policy." 174 B.R. at 123. The Court responded by noting "§ 365(c) recognizes that there are other policies in law as well, and the statute expressly subordinates the policy of maximization to those other policies." *Id.* at 123-24.

The debtor then argued, like Respondent here, that the holding jeopardizes the reorganization of all technology-based debtors. The court gave short shrift to this concern, noting "[t]he application of this long-standing federal rule [prohibiting assignment of patent licenses] does not impose *per se* nonassignability; there is nothing in the federal rule to prevent patent holders from conferring assignable licenses to companies willing to pay the additional cost of such licenses." *Id.* at 124. Thus, far from jeopardizing the reorganization of technology based companies, reversing the First Circuit here simply upholds the long-standing federal prohibition against nonconsensual assignments of patent licenses, and prevents a licensee from using the bankruptcy code to obtain the benefits of assignability without paying for them.

More fundamentally, however, Respondent's arguments boil down to the assertion that the bankruptcy policy of maximizing assets and fostering rehabilitation of technology-based debtors should always takes priority over other, perhaps com-

peting, policies embodied in nonbankruptcy law. The conflict among the courts regarding § 365(c) arises because it is under § 365(c) that the courts are asked to weigh these competing policies, all of which are of "substantial weight." *In re Antonelli,* 148 B.R. at 447. This case presents this Court with the opportunity to resolve these conflicts, and to determine whether, as Respondent argues, bankruptcy policy always trumps nonbankruptcy policy, no matter how compelling the nonbankruptcy policy may be.

CONCLUSION

For all the foregoing reasons, Petitioners pray that this Court review this case by writ of certiorari.

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June 5, 1997

APPENDIX A

Bankruptcy Law Letter

Vol. 17, No. 4 **April 1997**

How to Transfer a Nonassignable Patent License

AIDS is a terrible disease. However, it has become a source of potentially big dollars for medical firms engaged in the diagnosis and treatment of AIDS. AIDS-related patents can be extremely valuable. Patents, however, generally cannot be assigned without the consent of the patent holder. A chapter 11 debtor discovered a way to circumvent this prohibition — it first *assumed* the patent licenses, then it *sold* its stock to a third party under a reorganization plan. The acquiring third party thus obtained the right to use the assumed patent licenses. The First Circuit rejected the patent holder's objection, ruling that assumption-plus-stock-sale was not the same as assignment. *(Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489 (1st Cir. 1997).)

The Patent Licenses and the Restrictions on Assignment. Institut Pasteur, a nonprofit French foundation engaged in AIDS-related research. owns patents for procedures to detect the HIV2 virus. Pasteur Sanofi Diagnostics, which holds the exclusive right to use and sublicense those patents, entered into mutual cross-license agreements with Cambridge Biotech Corp. (CBC), in which Pasteur and CBC each acquired a nonexclusive perpetual license to use some of the other's a pat-

ents. CBC obtained the right to use Pasteur's HIV2 procedures in its AIDS diagnostic kits.

These patents could not be assigned or sublicensed without the consent of the patent holder. This broad prohibition is found both in the terms of the license agreements between Pasteur and CBC and in the federal common law of patents. However, the license agreements did permit the licensee to share the benefits of the agreements with any "Affiliated Company." and did not contain provisions conditioning CBC's rights to use the licensed technology in the event of a change of stock ownership.

DeFacto Assignment Argument Found Wanting. Pasteur's worst fear soon came to pass. CBC filed chapter 11 in 1994, and continued operating its retroviral diagnostic testing business, using the Pasteur HIV2 procedures. CBC's confirmed chapter 11 plan provided that CBC would: (i) assume the cross-licenses with Pasteur; (ii) continue operating its diagnostic business; and (iii) sell all of its stock to a subsidiary of bioMerieux. BioMerieux is Pasteur's direct competitor in international biotechnology sales. Pasteur, stunned that its chief rival would be able to use Pasteur's own patents to compete, objected to the plan, arguing that the assumption of the cross-licenses by CBC and the stock sale to bioMerieux was an impermissible de facto assignment of the Pasteur licenses to bioMerieux. The bankruptcy court overruled Pasteur's objection and confirmed the plan, and the district court and court of appeals upheld the confirmation order on appeal.

Section 365(c)(1) limits the ability of a trustee or debtor in possession to assume or assign executory contracts if "applicable law" excuses the nondebtor party to the contract from accepting performance from a third party. As many courts have noted, and as this newsletter often has observed, Section 365(c)(1) is fraught with ambiguity and uncertainty.

Two distinct questions were presented by the facts in the *Cambridge Biotech* case. First, could CBC as the debtor in possession *assume* the patent licenses, given the prohibition on assignment? Second, even if CBC as debtor in possession would be allowed to assume the licenses, did assumption coupled with the stock to bioMerieux constitute a de facto assignment to bioMerieux that would run afoul of Section 365(c)1?

"Actual Performance" Test Adopted for Assumption, "Hypothetical Test" Rejected. The initial question was whether the First Circuit would interpret Section 365(c)(1) to impose an "actual" or a "hypothetical" test for assumption by the debtor in possession. The difference is this. The hypothetical test prohibits assumption and performance by the debtor in possession if applicable law would excuse the nondebtor party from accepting performance from an entity other than the debtor. In other words, under the hypothetical test, if the debtor in possession cannot assign the contract to a third party, the debtor itself cannot assume the contract. Here, since CBC could not assign the patent licenses, use of the hypothetical test would prevent CBC from even assuming those licenses. On this theory, Pasteur would win even without proving that the reorganization plan amounted to a de facto assignment.

Under the actual test, however, assumption will be denied only if performance of the assumed contract by the debtor in possession will in fact deprive the nondebtor party to the contract of the benefit of its bargain. Since the debtor is the very party with whom the nondebtor party contracted, it is usually quite difficult for the nondebtor party to persuade the court that performance by the debtor will eviscerate its contractual expectations. That the debtor hypothetically could not assign the contract to a third party is deemed irrelevant under the actual test, if no such assignment is in fact contemplated. Fol-

lowing its decision in the case *of Summit Investment & Development Corp. v. Leroux.* 69 F.3d 609 (1st Cir. 1995) (discussed in *Bankruptcy Law Letter, January 1996,* at 6), the First Circuit reiterated its preference for the actual test. Given that CBC intended to keep operating the diagnostic business and using Pasteur's patented technology itself, the court found no reason to bar assumption under the actual test.

Stock Sale Does Not Prevent Assumption. Pasteur, however, was not ready to concede defeat, even given the court's utilization of the actual performance test. Pasteur claimed that CBC's assumption did deprive Pasteur of the benefit of its bargain, by reason of the fact that CBC sold all of its stock to bioMerieux, a chief competitor of Pasteur. Because of this stock sale, CBC was no longer the same entity that Pasteur contracted with, Pasteur alleged. Furthermore, the practical effect of the assumption-plus-stock-sale would be to assign the patent license to a third party — a result that plainly could not be effected directly.

The First Circuit had little sympathy for Pasteur's plea, for several reasons. First. under basic principles of corporate law, a transfer of stock ownership does not affect or alter the separate legal status of the corporation itself. Continuity of life is a fundamental aspect of corporate status. Thus, nothing in the mere sale of stock affected the rights of the debtor in the licensed technology. Second, Pasteur could have protected itself from the effects of a change in CBC's ownership by careful drafting of the license agreements. Those agreements could have limited or terminated CBC's license rights in the event its stock were to change hands, but they did not do so. The generic prohibition on assignment did not have such a global effect. Furthermore, the license agreements even recognized the right of CBC to share the benefits of the licensed

technology with any "Affiliated Company," which would include a parent company.

WG&L Thoughts. The *Cambridge Biotech* case is another chapter in the continuing saga of the problems raised by the collision in bankruptcy reorganization cases between the needs to promote the ends of the reorganization, on the one hand, and to protect the legitimate contractual expectations of the nondebtor party to a contract with the debtor, on the other. As have many cases before it, *Cambridge Biotech* takes a pragmatic view of whether any concrete harm has been inflicted on the nondebtor party, eschewing hypertechnical solutions that serve only to mask the real issues. Unfortunately, the conundrum of interpreting "applicable law" in Section 365(c) continues to plague the courts. (For a useful discussion, see Brett W. King, "Assuming and Assigning Executory Contracts: A History of Indeterminate "Applicable Law," 70 Am. Bankr. L.J. 95 (1996). Interestingly, the First Circuit in *Cambridge Biotech* suggested that Pasteur could have drafted around its problem, through the adroit use of change-of-ownership provisions in the license agreements, but one wonders whether such provisions would be honored in a chapter 11 case if the effect were to deprive the estate of valuable contractual rights. Such provisions seem analogous to contractual anti-assignment clauses, which are not given effect in bankruptcy (see Section 365(f)).